DEPARTMENT OF THE NAVY
UNITED STATES MARINE CORPS

# FISCAL YEAR 2021
# AGENCY FINANCIAL REPORT


**Making Marines and Winning Battles since 1775**

*Staff Sgt. Andrew Snyder, a drill master with Recruit Training Regiment, evaluates recruits with Charlie Company, 1st Recruit Training Battalion, during their final drill evaluation at Marine Corps Recruit Depot, San Diego, Dec. 14, 2019. During evaluations, drill masters score the platoons based on their uniforms, bearing, movements, as well as the drill instructor's cadence and sword control.*
*(U.S. Marine Corps photo by Zachary T. Beatty)*

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**DEPARTMENT OF THE NAVY**
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, D.C. 20350-3000

October 2021

Fiscal Year 2021 (FY21) marked yet another year of the United States Marine Corps' tireless service to our great Nation, both at home and abroad. No matter the timing nor the situation at hand, Marines are prepared to meet the moment and prevail. This FY21 Agency Financial Report details how the U.S. Marine Corps always remains at the ready, utilizing the financial resources afforded to it by the American people to maximum effect.

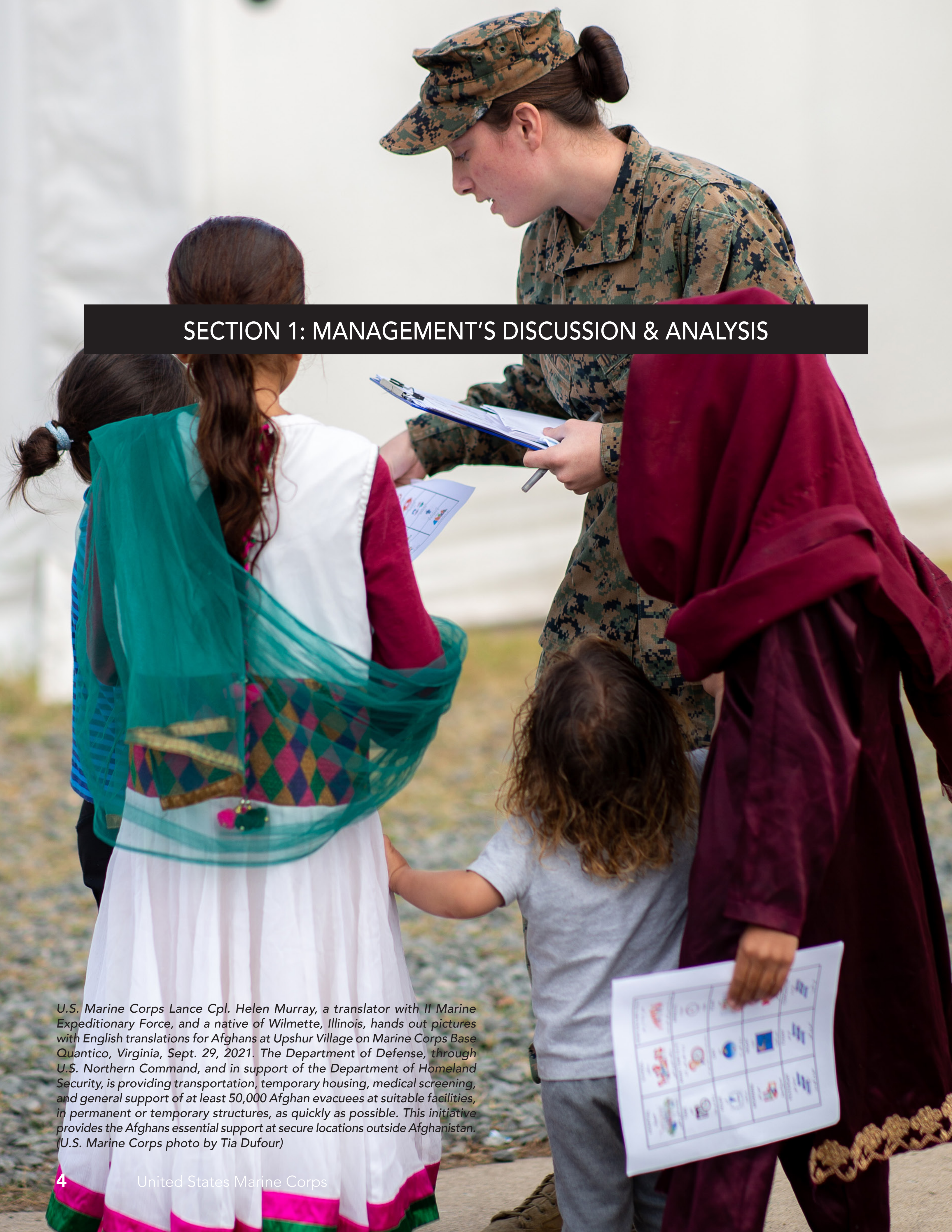
Having just completed our fifth year under financial statement audit, we continue on the positive trajectory toward improved financial accountability through the hard work of all members of our organization. This annual assessment of our business processes and financial records ensures that we continually seek to improve our financial management of resources for the benefit of the Marine Corps and the Country. During the past year, our Force Design efforts continued to shape and mold a modern fighting force that will optimize our lethality and keep pace with emerging threats around the globe, both conventional and unconventional.

Our audit journey in FY21 was with a new Independent Public Accounting (IPA) firm, Ernst & Young. The partnership has proven to be very strong and we seek to grow and advance through their fresh perspective of the Marine Corps and their recommendations for how we can change for the better. Our progress has been steady and we accomplished more in this year's audit than in last year's. We expect the same to be true in FY22 as we migrate into our new, more audit-compliant general ledger accounting system and refine our audit remediation efforts with one goal in mind: to be the first military service to obtain and sustain an Unmodified Audit Opinion.

The support of the American people is humbling and greatly appreciated as we continue to do the work necessary to attain success in audit. Semper Fidelis.

David H. Berger
General, U.S. Marine Corps
Commandant of the Marine Corps

# SECTION 1: MANAGEMENT'S DISCUSSION & ANALYSIS



*U.S. Marine Corps Lance Cpl. Helen Murray, a translator with II Marine Expeditionary Force, and a native of Wilmette, Illinois, hands out pictures with English translations for Afghans at Upshur Village on Marine Corps Base Quantico, Virginia, Sept. 29, 2021. The Department of Defense, through U.S. Northern Command, and in support of the Department of Homeland Security, is providing transportation, temporary housing, medical screening, and general support of at least 50,000 Afghan evacuees at suitable facilities, in permanent or temporary structures, as quickly as possible. This initiative provides the Afghans essential support at secure locations outside Afghanistan. (U.S. Marine Corps photo by Tia Dufour)*

On November 10, 1775, the Second Continental Congress established the Continental Marines — later to become the United States Marine Corps (hereafter referred to as the USMC or the Marine Corps) — which has since served in nearly every military conflict in United States history. The USMC's ability to rapidly respond on short notice to expeditionary crises has made, and continues to make, a significant impact on United States National Defense Strategy. Carrying out duties given to them directly by the President of the United States, the Marine Corps serves as an all-purpose, fast-response task force, capable of quick action in areas requiring emergency intervention.

Marine tactics and doctrine tend to emphasize aggressiveness and being on the offensive. Initially created to conduct ship-to-ship fighting operations during the American War of Independence, the USMC has been central in developing groundbreaking tactics for maneuver warfare and can be credited with the development of helicopter insertion doctrine and modern amphibious assault. As a force, the Marine Corps consistently uses all essential elements of combat (i.e., air, ground, and sea) together; a trademark that allows the Marines to maintain integrated, multi-element task forces under a single command, while bringing flexibility and lethality to address ever-changing threats.

## Mission and Organizational Structure

### Mission

The roles and missions of the USMC are codified in (1) 10 United States Code (U.S.C.) § 5063, *United States Marine Corps: composition; functions*, (2) Public Law 80-253, 61 Stat 495, *National Security Act of 1947*, and (3) Department of Defense (DoD) Directive 5100.01, *Functions of the Department of Defense and Its Major Components*. These roles and missions are to:

- Seize and defend advanced naval bases or lodgments to facilitate subsequent joint operations;
- Provide close air support for ground forces;
- Conduct land and air operations essential to the prosecution of a naval campaign as directed;
- Conduct complex expeditionary operations in the urban littorals and other challenging environments;
- Conduct amphibious operations, including engagement, crisis response, and power projection operations to assure access;
- Develop amphibious doctrine, tactics, techniques, and equipment;
- Conduct security and stability operations and assist with the initial establishment of a military government pending transfer of this responsibility to other authority; and
- Provide security detachments and units for service on armed vessels of the Navy, protection of naval property at naval stations and bases, security at designated U.S. embassies and consulates, and perform other such duties as the President or the Secretary of the Defense may direct.

## Organizational Structure

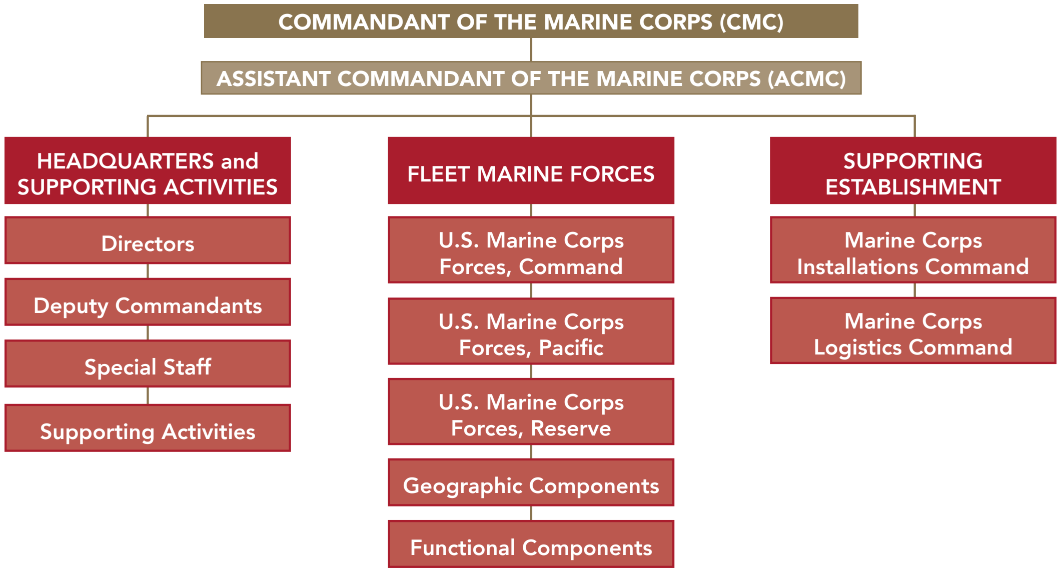



**Figure 1. USMC Organizational Structure**

The USMC, led by the Commandant of the Marine Corps (CMC), is a component reporting entity of the U.S. Department of the Navy (DoN), headed by the Secretary of the Navy (SECNAV). The USMC is comprised of Headquarters, U.S. Marine Corps (HQMC) and Supporting Activities, the Fleet Marine Forces, and the Supporting Establishment.

### Headquarters, U.S. Marine Corps, and Supporting Activities

HQMC consists of directorates, deputy commandants, and special staff agencies that advise and assist in discharging the Commandant's responsibilities as prescribed by law. Under the authority, direction, and control of the SECNAV through the CMC, HQMC coordinates the recruiting and training of Marines; facilitates the general administration of the organization; supplies and equips (including research and development) the force; initiates mobilization and demobilization efforts; and assists in the execution of any power, duty, or function of the SECNAV or the CMC.

#### HQMC Directorates consist of the following:

- Director, United States Marine Corps Staff
- Director, Health Services
- Communication Directorate

#### HQMC Deputy Commandants consist of the following:

- Deputy Commandant, Manpower and Reserve Affairs
- Deputy Commandant, Plans, Policy, and Operations
- Deputy Commandant, Aviation
- Deputy Commandant, Installations and Logistics
- Deputy Commandant, Combat Development and Integration
- Deputy Commandant, Programs and Resources
- Deputy Commandant, Information

#### HQMC Special Staff Agencies consist of the following:

- Staff Judge Advocate to the Commandant of the Marine Corps
- Counsel for the Commandant of the Marine Corps
- Chaplain of the Marine Corps
- Sergeant Major of the Marine Corps
- Office of the Legislative Assistant to the Commandant of Marine Corps
- Inspector General of the Marine Corps
- Directorate of Analytics and Performance Optimization

HQMC is located throughout the Washington, D.C. metro area, including the Pentagon, Henderson Hall, Marine Barracks Washington, D.C., Marine Corps Base Quantico, Virginia, and the Washington Navy Yard.

## Supporting Activities

Supporting Activities report directly to the CMC or the Assistant Commandant of the Marine Corps with the exception of the Marine Corps Systems Command, which reports directly to the Assistant Secretary of Navy, Research and Development, and Acquisition. The supporting activities are as follows:

- Marine Corps Combat Development Command
- Training and Education Command
- Marine Corps Recruiting Command
- Marine Barracks Washington, D.C.
- Marine Corps Systems Command
- Other activities outside the organizational scope of Fleet Marine Forces and Supporting Establishment

## Fleet Marine Forces

The Fleet Marine Forces are the heart of the Marine Corps. They maintain a constant state of readiness through an organizational structure that enables rapid, global response by air, land, and sea.

The President establishes unified combatant commands to execute broad and continuing missions at the strategic level. These combatant commands typically have geographic or functional responsibilities. Fleet Marine Forces are generally assigned to the combatant commands by the SECNAV for contingency planning as directed by the Secretary of Defense.

The Fleet Marine Forces generally operate as Marine Air-Ground Task Forces (MAGTFs), which are integrated, combined arms forces that include air, ground, and logistics units under a single commander. They provide the forward presence, crisis response, and combat power that the Marine Corps makes available to combatant commanders. MAGTFs are organized, trained, and equipped from the operating forces of Marine Forces Command (MARFORCOM), Marine Forces Pacific (MARFORPAC), and Marine Forces Reserve (MARFORRES).

### U.S. Marine Corps Forces, Command

MARFORCOM commands the Active Component of Fleet Marine Forces, while serving as Commanding General, Fleet Marine Forces Atlantic and directs deployment planning and execution of forces in support of service requirements. MARFORCOM also provides required Marine Corps forces to joint and combatant commanders. MARFORCOM coordinates USMC and Navy integration of operational initiatives and advises the Commander, U.S. Fleet Forces Command, on support to Marine Corps forces assigned to naval ships, bases, and installations. MARFORCOM is located in Norfolk, Virginia.

### U.S. Marine Corps Forces, Pacific

MARFORPAC is the largest field command in the Marine Corps and controls over two-thirds of the USMC operational forces. MARFORPAC operates in the Indo-Asia-Pacific region, the nation's largest theater stretching from Yuma, Arizona to Goa, India. MARFORPAC commands the USMC component of U.S. Indo-Asia-Pacific Command and Fleet Marine Forces, Pacific. In addition, MARFORPAC could be tasked to act as a joint task force command element. The Commander, MARFORPAC performs USMC component responsibilities in support of operational and concept plans, national and theater strategic objectives, theater security cooperation, foreign humanitarian assistance, homeland defense, and force posture. MARFORPAC headquarters is located at Camp H. M. Smith, Hawaii.

### U.S. Marine Corps Forces, Reserve

MARFORRES is responsible for maintaining trained units and qualified Marines readily available for duty and service in times of war, national emergency, or in support of contingency operations. During times of peace, MARFORRES provides personnel and operational tempo relief for active component forces. Similar to the active component, MARFORRES is a combined-arms force with balanced ground, aviation, and logistics combat support units. MARFORRES capabilities are managed through MARFORCOM as part of its global force management responsibilities for the CMC. MARFORRES has units located all over the United States and in Puerto Rico. MARFORRES headquarters is located in New Orleans, Louisiana.

Commander, MARFORPAC and Commander, MARFORCOM provide the geographical combatant commanders with scalable MAGTFs that possess the unique ability to project mobile, reinforceable, sustainable combat power across a range of military operations. Commander, MARFORRES provides ready and responsive reserve marine forces and marines who augment and reinforce active component MAGTFs in their mission accomplishment.

Figure 2 presents the geographical regions where each U.S. Combatant Command conducts operations.

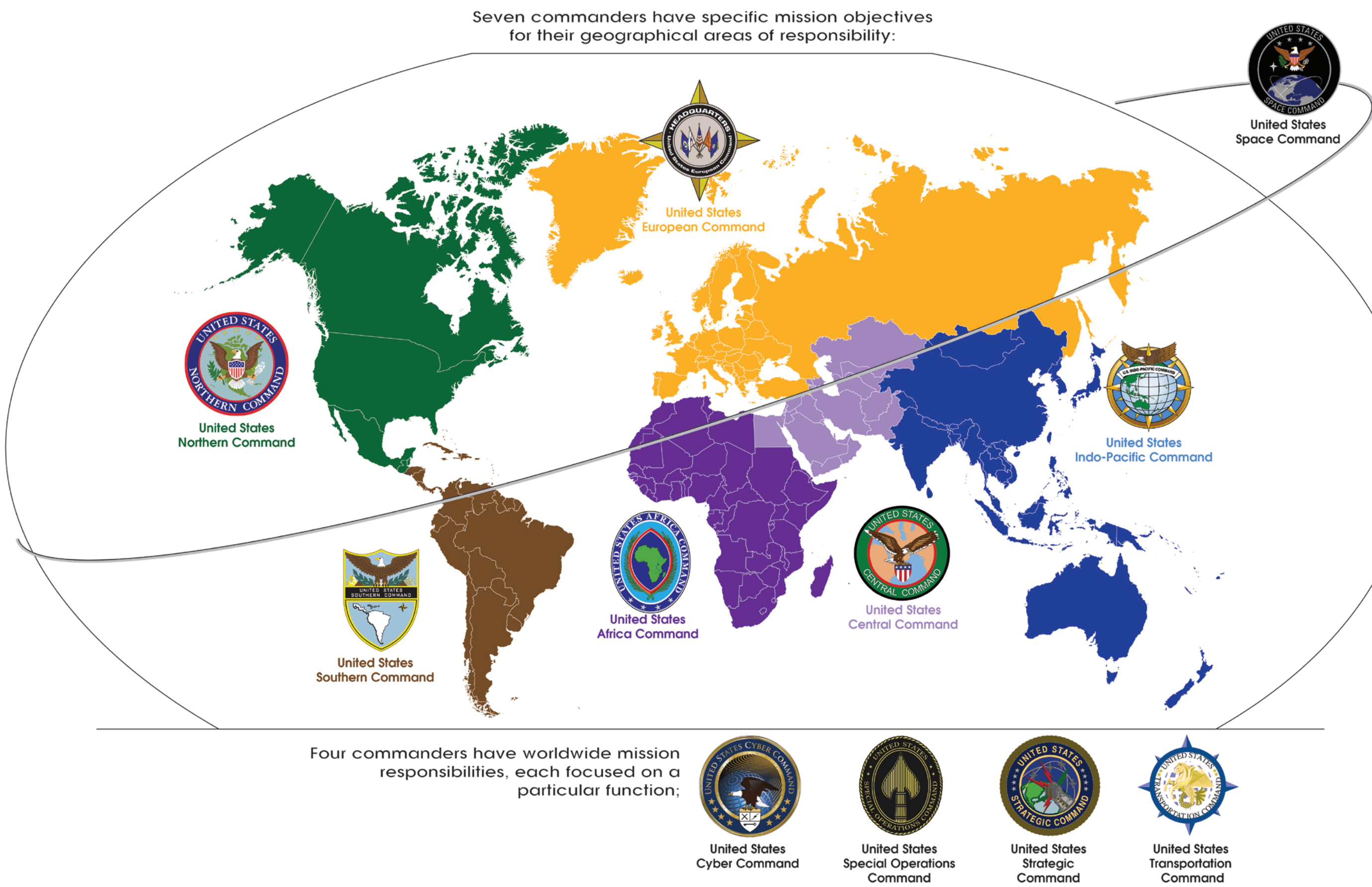



**Figure 2. DoD Combatant Commands**

As highlighted in Figure 3, MAGTFs provide combatant commanders with scalable, versatile expeditionary forces able to assure allies, deter potential adversaries, provide persistent U.S. presence with little or no footprint ashore, and respond to a broad range of contingency, crisis, and conflict situations. A single commander leads and coordinates this combined-arms team through all phases of deployment and employment. MAGTF teams live and train together, further increasing their cohesion and fighting power. Tailored to meet combatant commanders' requirements, MAGTFs operate as an integrated force in the air, land, maritime and cyberspace domains. The naval character of MAGTFs enhances their global mobility, lethality, and staying power.

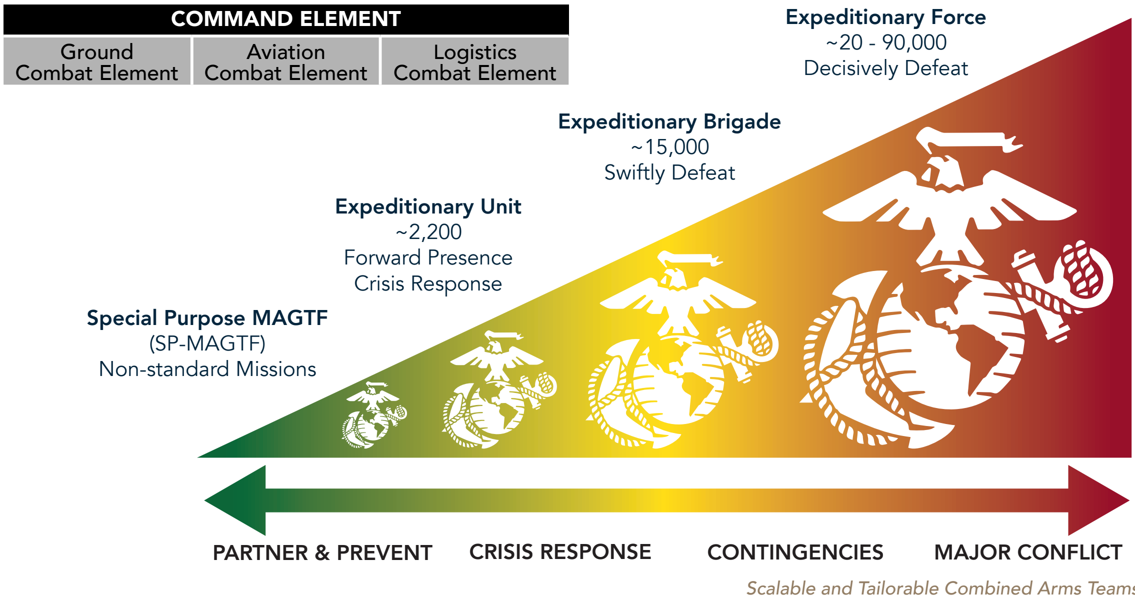



**Figure 3. Types of MAGTFs**

Fleet Marine Forces service components supporting the geographical combatant commands are as follows:

## U.S. Marine Corps Forces, Northern Command

U.S. Marine Corps Forces, Northern Command (MARFORNORTH) is the USMC service component of U.S. Northern Command (USNORTHCOM). MARFORNORTH commands all Marine forces assigned to USNORTHCOM and advises Commander, USNORTHCOM on the proper employment and support of Marine forces. MARFORNORTH executes anti-terrorism program and force protection responsibilities, conducts homeland defense operations, and provides defense support to civil authorities. MARFORNORTH headquarters is co-located with MARFORCOM in Norfolk, Virginia.

## U.S. Marine Corps Forces, Central Command

U.S. Marine Corps Forces, Central Command (MARCENT) is the USMC service component of U.S. Central Command (USCENTCOM). MARCENT commands all Marine forces assigned to USCENTCOM and conducts planning in support of Commander, USCENTCOM. MARCENT also commands Marine forces assigned to joint and multinational forces and advises joint force commanders on proper employment and support of Marine forces. MARCENT headquarters is located at MacDill Air Force Base, Florida.

## U.S. Marine Corps Forces, Southern Command

U.S. Marine Corps Forces, Southern Command (MARFORSOUTH), is the USMC service component for U.S. Southern Command (USSOUTHCOM). MARFORSOUTH commands all USMC forces assigned to USSOUTHCOM and advises the Commander, USSOUTHCOM on the proper employment and support of Marine forces. MARFORSOUTH also conducts deployment and redeployment planning and execution of Marine forces assigned to USSOUTHCOM and accomplishes other operational missions as assigned. MARFORSOUTH headquarters is located in Miami, Florida.

## U.S. Marine Corps Forces, Europe and U.S. Marine Corps Forces, Africa

U.S. Marine Corps Forces, Europe (MARFOREUR) and U.S. Marine Corps Forces, Africa (MARFORAF) are the USMC service components for U.S. European Command (USEUCOM) and U.S. Africa Command (USAFRICOM). MARFOREUR and MARFORAF provide Marine forces and support to USEUCOM and USAFRICOM commanders across all warfighting functions. MARFOREUR supports contingency operations in the USEUCOM area of responsibility by providing rotational forces and maintaining amphibious-oriented integration with key European allies. MARFORAF maintains crisis response capability in the USAFRICOM area of responsibility and protects U.S. personnel and facilities across the continent. MARFOREUR and MARFORAF headquarters is located in Böblingen, Germany and Stuttgart, Germany, respectively.

## U.S. Marine Corps Forces, Korea

U.S. Marine Corps Forces, Korea (MARFORK) is the USMC service component for U.S. Forces Korea (USFK) and United Nations Command (UNC). It commands all Marine forces assigned to USFK and UNC and advises USFK and UNC on the capabilities, support, and proper employment of Marine forces. MARFORK supports the defense of the Republic of Korea by facilitating the rapid introduction of USMC forces onto the Korean Peninsula in order to maintain stability in Northeast Asia. MARFORK is the Marine Corps representative to the Commandant of the Republic of Korea Marine Corps. MARFORK headquarters is located in Seoul, South Korea.

Fleet Marine Forces service components supporting the functional combatant command are as follows:

## U.S. Marine Corps Forces, Special Operations Command

U.S. Marine Corps Forces, Special Operations Command (MARSOC) is the USMC service component of U.S. Special Operations Command (USSOCOM). Under the direction of the Commander, USSOCOM, MARSOC deploys task-organized, scalable, and responsive Marine special operations forces worldwide in support of combatant commanders and other agencies. Over the years, MARSOC has conducted missions in over 30 different countries. Many of these missions have been focused on strengthening partner counter-terrorism capabilities, assisting with counter narco-terrorism efforts, and providing subject matter expertise and training to partner forces. In addition, MARSOC conducts missions related to foreign internal defense, special reconnaissance, and direct action. MARSOC headquarters is located at Camp Lejeune, North Carolina.

## U.S. Marine Corps Forces, Strategic Command

U.S. Marine Corps Forces, Strategic Command (MARFORSTRAT) is the USMC service component command of U.S. Strategic Command (USSTRATCOM). MARFORSTRAT advises and assists other USMC commands and supporting establishment in the development of concepts, education, training, and doctrines. MARFORSTRAT also assists the commands and supporting establishment in developing capabilities in space, cyberspace, electronic warfare, and efforts to combat weapons of mass destruction. MARFORSTRAT advocates for capabilities in order to ensure coherent cross-mission situational awareness and integration between the USMC and USSTRATCOM. MARFORSTRAT headquarters is co-located with USSTRATCOM headquarters at Offutt Air Force Base, Nebraska.

## U.S. Marine Corps Forces, Cyberspace Command

U.S. Marine Corps Forces, Cyberspace Command (MARFORCYBER) is the USMC service component for U.S. Cyber Command. MARFORCYBER performs full spectrum cyberspace operations, which includes the planning and direction of Marine Corps enterprise network operations, defensive cyberspace operations, and the planning and direction of offensive cyberspace operations in support of Joint and Coalition Forces. MARFORCYBER performs various functions to enable freedom of action across all warfighting domains and deny the same to adversarial forces. MARFORCYBER headquarters is located at Fort Meade, Maryland.

## U.S. Marine Corps Forces, Space Command

U.S. Marine Corps Forces, Space Command (MARFORSPACE) is the USMC service component for U.S. Space Command. MARFORSPACE, created from the existing space expertise in Marine Corps Forces Strategic Command, focused on providing space operational support to the Fleet Marine Force while building a convergence capability to increase warfighter lethality. MARFORSPACE headquarters is co-located with MARFORSTRAT and USSTRATCOM at Offutt Air Force Base, Nebraska.

## Supporting Establishment

The Marine Corps Supporting Establishment consists of those personnel, bases, and activities that support the Fleet Marine Forces. This infrastructure consists primarily of 16 major bases and stations in the United States and overseas and all the personnel, equipment, and facilities required to operate them — approximately 30,000 Marines. Additionally, the Supporting Establishment includes those civilian activities and agencies that provide support to Fleet Marine Forces.

In keeping with the Marine Corps' expeditionary nature, these installations that support the Marine Expeditionary Forces are strategically located near aerial ports and seaports of embarkation and are serviced by major truck routes and railheads to allow for the rapid and efficient movement of Marines and equipment.

## USMC Reporting Entity and Major Programs

In accordance with Statement of Federal Financial Accounting Standards No. 47, *Reporting Entity*, the USMC meets the definition of a component reporting entity of the DoN. The Office of Management and Budget (OMB) designated the USMC as a component entity required to prepare separate financial statements. Refer to the Financial Section, Note 1.B. *Reporting Entity* for further discussion about the USMC reporting entity composition, and disclosure entities specific discussion on Public-Private Partnerships at Note 19 and Non-Appropriated Fund Instrumentalities at Note 20.

The primary mission and service of the USMC is to be a premier warfighting group prepared to take on challenges around the globe at a moment's notice. In line with its goal, for financial reporting purposes, the USMC defines itself as a responsibility segment and/or major program with one major output, which is military support. To execute its major program objectives, the USMC has sub-programs and related activities, managed through the establishment of performance goals and related objectives. The individual sub-program costs and related revenue, applicable to specific activities, are consolidated into the military support major program, presented on the Statement of Net Cost as one responsibility segment.

# Analysis of Performance Goals, Objectives, and Results

*Commandant's Planning Guidance* issued by the Commandant in 2019 provides the strategic direction for the Marine Corps, serves as the authoritative document for Service-level planning, and provides a common direction to the Marine Corps total force.

USMC Strategic Priorities encompass the following:

Strategic Priority #1: Force Design

Strategic Priority #2: Talent Management Reform

Strategic Priority #3: Training and Education Reform

Strategic Priority #1: **Force Design.** The Marine Corps is investing in its force to ensure it is trained, organized, and equipped to integrate with the naval force and maintain strategic advantage over peer competitors.

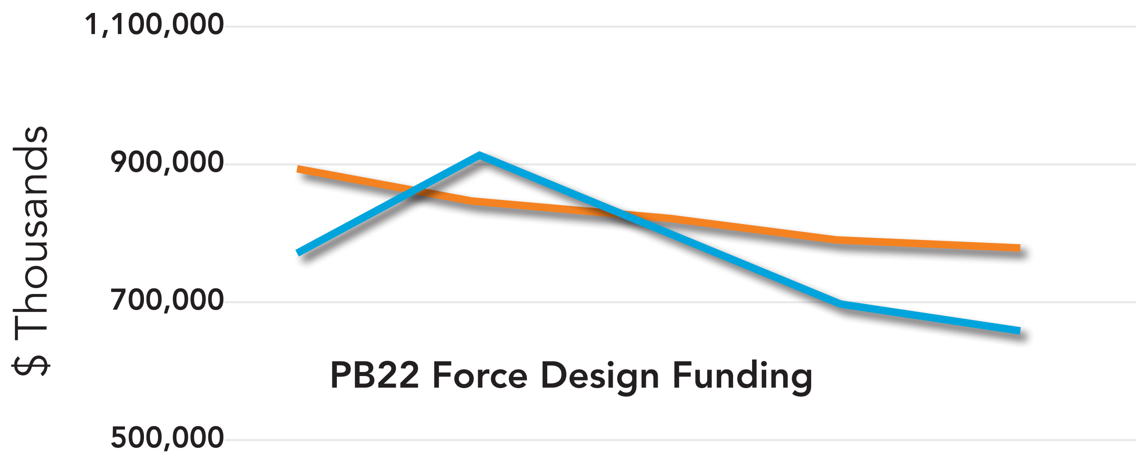
**Force Design Goal Objectives:** The below objectives related to this goal are in support of the fleet and joint naval expeditionary forces.

| Objectives |
|---|
| Successfully compete with peer adversaries in the maritime gray zone |
| Deter, and if required, fight and win in support of a naval campaign |
| Facilitate sea denial and sea control |
| Win the reconnaissance and counter-reconnaissance (scouting and counter-scouting) competition |
| Persist inside actively contested spaces |
| Be capable of rapidly sensing, assessing, and acting upon information inside the weapon engagement zone |

Current Marine Corps efforts to meet Force Design Goal objectives include:

- The Marine Corps continues to reorganize and invest to employ an initial operating capability for a Marine Littoral Regiment within III Marine Expeditionary Force, in the U.S. Indo-Pacific Command theater of operations in FY2023.
- The Marine Corps Warfighting Lab continues to conduct an extensive program of experimentation and wargaming over the next five years to continue to inform Force Design.
- The Marine Corps continues to conduct a series of assessments to inform Force Design for the future of required all-domain reconnaissance capabilities.
- Integrating Force Design conclusions for the final design of Marine Littoral Regiment, reconnaissance, and Marine Expeditionary Capabilities.

During FY2022 budget formulation, the USMC internally divested and sourced a modernization plan with capabilities to support an initial force design operating concept in FY2023. Specifically, the Marine Corps began divesting nearly $3.8 billion of legacy programs and manpower over a five-year period while also investing $4.1 billion into modernization capabilities during the same period.




| | FY22 | FY23 | FY24 | FY25 | FY26 | TOTAL |
|---|---|---|---|---|---|---|
| INVESTMENT | $890,605 | $839,089 | $821,095 | $787,290 | $773,882 | $4,111,961 |
| DIVESTMENT | $774,990 | $909,326 | $808,952 | $716,880 | $678,470 | $3,888,618 |

**Figure 4. Force Design Funding**

Strategic Priority #2: **Talent Management Reform.** The industrial age manpower management processes we use today will not support our larger force design goal.

**Talent Management Reform Goal Objectives:** The below objectives related to this goal are to develop a true Talent Management system.

| Objectives |
|---|
| Retain the most talented Marines and replace transitioning individuals with the highest quality of Marines |
| Change the focus from replacing an annual 30,000+ cohort to a focus on the individual Marine and his/her progression |
| Adopt a model focused on the longer term "accession to retention," vice accession to end of first enlistment |
| Accommodate the changing interests and needs of the most talented within our force; for example change in primary occupational field, marriage, childbirth or adoption, family stability for children in high school, etc. |

Current Marine Corps efforts to meet Talent Management objectives include:

- Revise current parental leave policies to include parental leave for adoptive parents.
- Review the efficacy of a one-year paid maternity leave policy.
- Encourage female Marines from the Selected Marine Corps Reserve and Individual Ready Reserve to return-to-active duty to pursue opportunities in previously restricted Military Occupational Specialties to include infantry Marines.
- Allow currently serving female officers to apply for lateral moves into combat arms Military Occupational Specialties which were previously closed to women.
- Complete HQMC reorganization that consolidated all manpower, occupational field sponsorship, and personnel roles, functions, and staff within Manpower and Reserve Affairs.
- Introduce Junior Enlisted Performance Evaluation System to replace the legacy Pro/Con system of enlisted evaluation.
- End non-observed Fitness Reports for Non-Commissioned Officers and Officers who are students in Military Occupational Specialty (MOS) or Professional Military Education Schools.

In November 2020, the CMC directed two studies related to the diversity of the force:

- Review any obstacles preventing African Americans from becoming tactical air pilots.
- Review any structural bias across the force that results in a less than diverse force.

Talent Management goal imperatives, challenges, and opportunities consist of the following:

- Introduce/identify psychological and behavioral screening for all new accessions.
- Identify structural obstacles and biases that result in an absence of diversity (ethnic, racial, gender) within senior officer ranks, including general officer ranks.
- Automate our human capital management systems and processes to create greater transparency for civilian leadership and service leadership oversight.
- Develop talent identification and assessment tools such as 360-degree evaluations for all potential commanders and general officers to augment the existing fitness report systems.

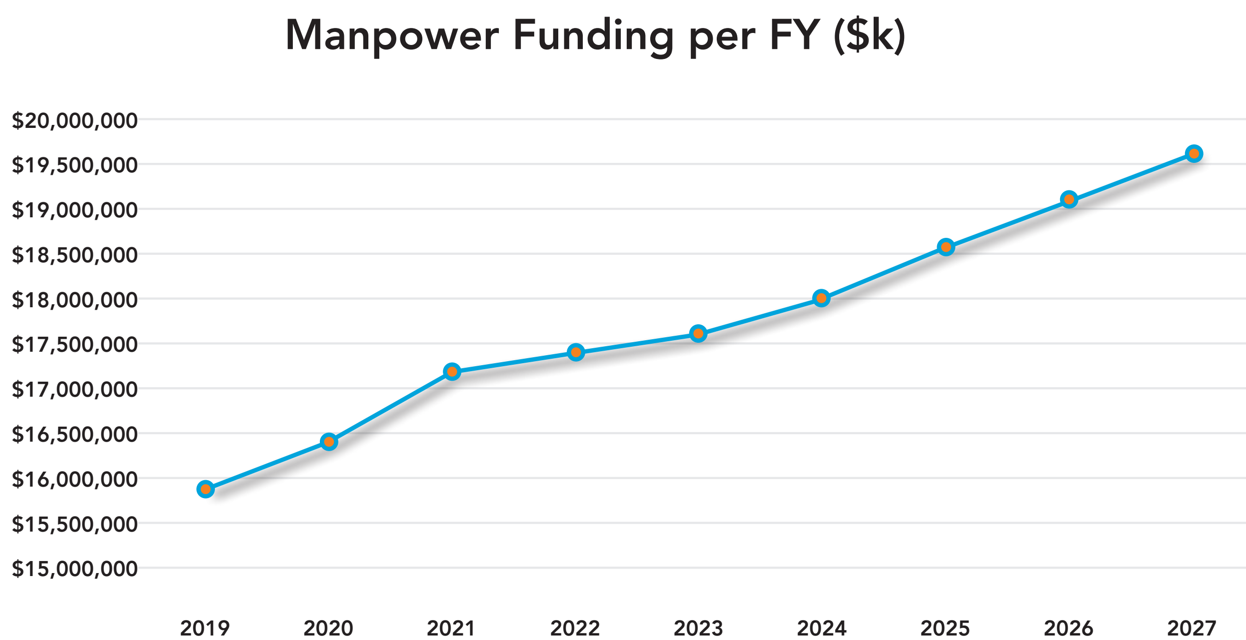



**Figure 5. Manpower Funding**

**Strategic Priority #3: Training and Education Reform.** The USMC recognizes that we can no longer assume we will maintain a technical advantage over peer competitor military forces. As that advantage continues to erode, it will become even more critical for our forces to maintain our edge in both individual decision-making and unit competence.

**Training and Education Reform Objectives:** The below objectives related to this goal are to adopt an "information age approach" to training and education that produces better leaders and warfighters and to change how we train and educate.

| Objectives |
|---|
| Focus on identifying, developing, and sustaining the unique talents of individual Marines |
| Increase the intellectual standards for all Marines, but particularly officers, at every stage of their selection for and attendance at formal schools |
| Prepare Marines graduating from initial MOS schools to join their first units at a higher level of technical and tactical competence |
| Move away from rote memorization/testing and "perfect" school solutions to practical judgments under pressure |
| Expand use of Force-on-Force Training and wargaming |
| Make Live-Virtual-Constructive training a normal part of the training continuum |

Current Marine Corps efforts to meet Training and Education Reform objectives include:

- Established Training and Education Command as a 3-star Command, breaking it out from under Combat Development Command.
- Eliminated non-observed academic fitness reports at resident Professional Military Education schools.
- Published doctrinal publications Marine Corps Doctrinal Publication *(MCDP) 7 Learning and MCDP 1-4 Competing.*
- Nearly doubled the amount of money spent on next generation Force-on-Force Training systems to modernize the way Marines train.

In 2021, the USMC accomplished the following:

- Increased Training and Education Command's budget by $323.2 million.
- Published the tentative manual on expeditionary advanced base operations.
- Executed a pilot enhanced infantry training/commando-like course for entry level Marines at the School of Infantry.

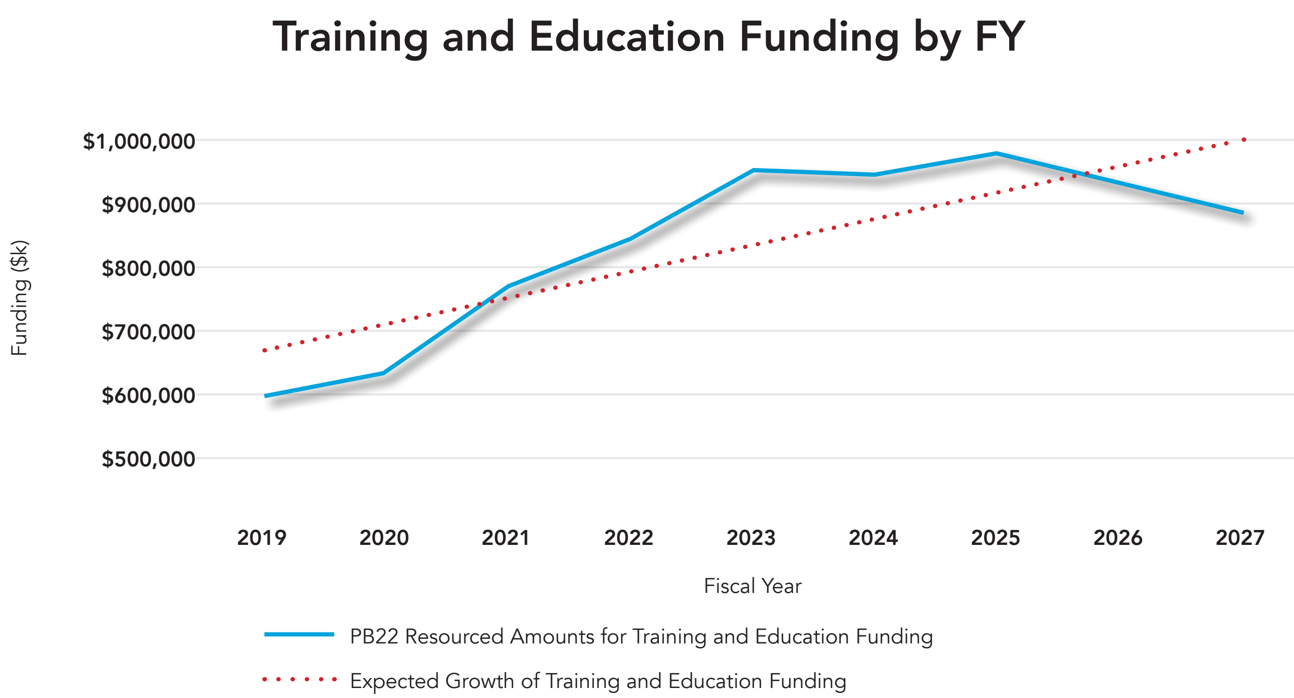



**Figure 6. Training and Education Funding**

<u>Training and education reform goal imperatives, challenges, and opportunities consist of the following</u>:

- Continue funding support to build a Wargaming Center at Marine Corps Base Quantico.
- Continue funding support to build a Wargaming Center at Marine Corps Base Quantico.
- Implement and enforce more rigorous academic standards at formal schools.
- Increase focus on enlisted leader development and enlisted education.
- Implement a human performance management system to achieve better outcomes with health, fitness, cognitive development and decision-making.
- Incorporate more naval education and training within the existing service-centric architecture.

## Analysis of Financial Statements and Stewardship Information

The Marine Corps' management is responsible for the integrity of the amounts in the financial statements. Explanations of year-over-year fluctuations in financial statement line items support management's goal of demonstrating objectivity and transparency to the American taxpayer regarding the use of the financial resources they have provided to the Marine Corps. Due to the interrelationships between certain accounts and financial statement line items, business events affecting the financial statements can impact multiple line items. The significant balances and current period fluctuations affecting the Marine Corps' key measures are provided in the table below:

| Table of Key Measures | | | | |
|---|---|---|---|---|
| *Amounts in Thousands* | Current FY | Prior FY | Increase/(Decrease) $ | Increase/(Decrease) % |
| **COSTS** | | | | |
| Total Financing Sources | $ 30,001,048 | $ 27,821,987 | $ 2,179,061 | 7.8% |
| Less: Net Cost | 30,877,334 | 27,968,359 | 2,908,975 | 10.4% |
| **Net Change of Cumulative Results of Operations** | **$ (876,286)** | **$ (146,372)** | **$ (729,914)** | **(498.7)%** |
| **NET POSITION** | | | | |
| **Assets:** | | | | |
| Fund Balance with Treasury | $ 11,998,575 | $ 12,580,059 | $ (581,484) | (4.6)% |
| Other Assets | 99,299 | 261,032 | (161,733) | (62.0)% |
| General Property, Plant and Equipment, Net | 22,704,631 | 23,009,277 | (304,646) | (1.3)% |
| Remaining Assets | 7,849,046 | 8,412,941 | (563,895) | (6.7)% |
| **Total Assets** | **$ 42,651,551** | **$ 44,263,309** | **$ (1,611,758)** | **(3.6)%** |
| **Liabilities:** | | | | |
| Accounts Payable | $ 1,148,580 | $ 1,094,500 | $ 54,080 | 4.9% |
| Federal Employee Benefits Payable | 1,161,690 | 1,131,028 | 30,662 | 2.7% |
| Environmental and Disposal Liabilities | 1,308,730 | 189,565 | 1,119,165 | 590.4% |
| Remaining Liabilities | 861,806 | 809,022 | 52,784 | 6.5% |
| **Total Liabilities** | **$ 4,480,806** | **$ 3,224,115** | **$ 1,256,691** | **39.0%** |
| **Net Position (Assets minus Liabilities)** | **$ 38,170,745** | **$ 41,039,194** | **$ (2,868,449)** | **(7.0)%** |

Significant financial statement line items presented in the Table of Key Measures or within the financial statements in the Financial Section that varied substantially from the prior year are explained below.

## Analysis of Assets

Other Assets, as presented in the Table of Key Measures, includes both intragovernmental and non-Federal balances for advances and prepayments and other assets. Other Assets - Intragovernmental increased by $32,670 thousand, or 131.4%, compared to the prior year. This increase is due to additional advances and prepayments provided to the Department of State and the USMC Working Capital Fund in FY2021. Other Assets - Other than Intragovernmental balance decreased $193,584 thousand or 85.0%. This decrease was from Military Equipment assets previously transferred into the Other Assets account until disposition at net book value being written down to a net realizable value of $0.01 in FY2021.

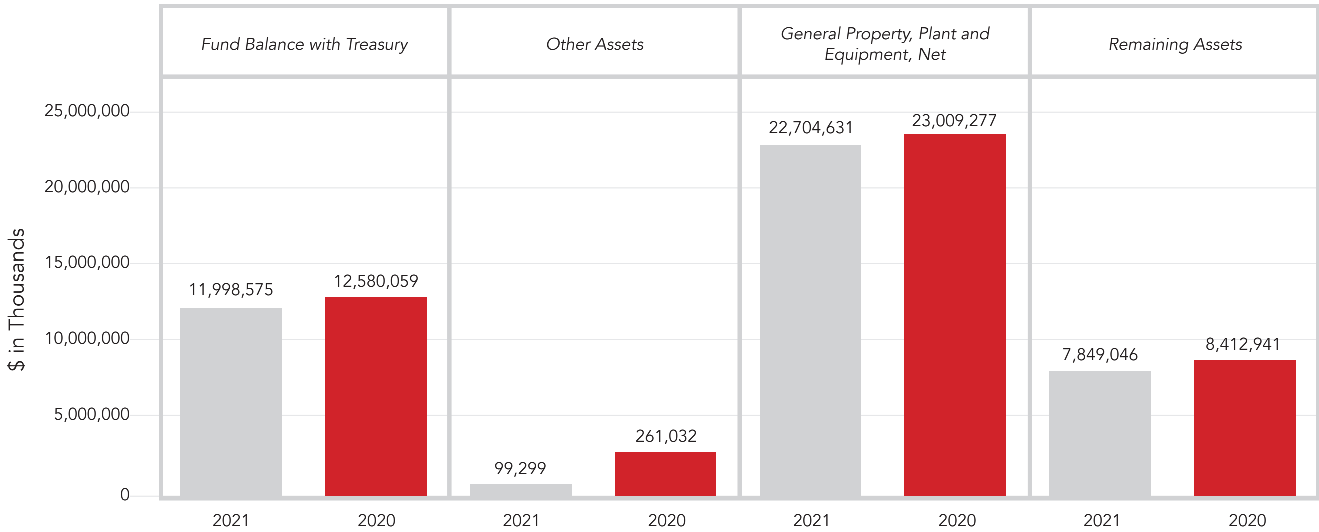



**Figure 7. Analysis of Assets**

## Analysis of Liabilities

Accounts Payable, as presented in the Table of Key Measures, includes both intragovernmental and non-Federal balances. Accounts Payable - Intragovernmental increased by $209,736 thousand, or 117.3%, compared to the prior year. This increase is attributable to improved efforts in recognizing intragovernmental liabilities related to reimbursable work orders with other Federal trading partners. The USMC implemented an accounts payable accrual methodology over contracts in FY2020. Continuous refinement of the estimation methodology using look-back analysis impacted the balance to decrease in Accounts Payable - Other than Intragovernmental by $155,656 thousand or 17.0%.

Environmental and Disposal Liabilities increased by $1,119,165 thousand, or 590.4%, compared to the prior year. This increase is due to the 1) FY2021 adoption of linear and non-linear estimating methodology for asbestos removal and disposal costs, 2) inclusion of asbestos asset populations that were previously considered ineligible, and 3) updates to the useful life classifications to be in conformance with DoD guidance.

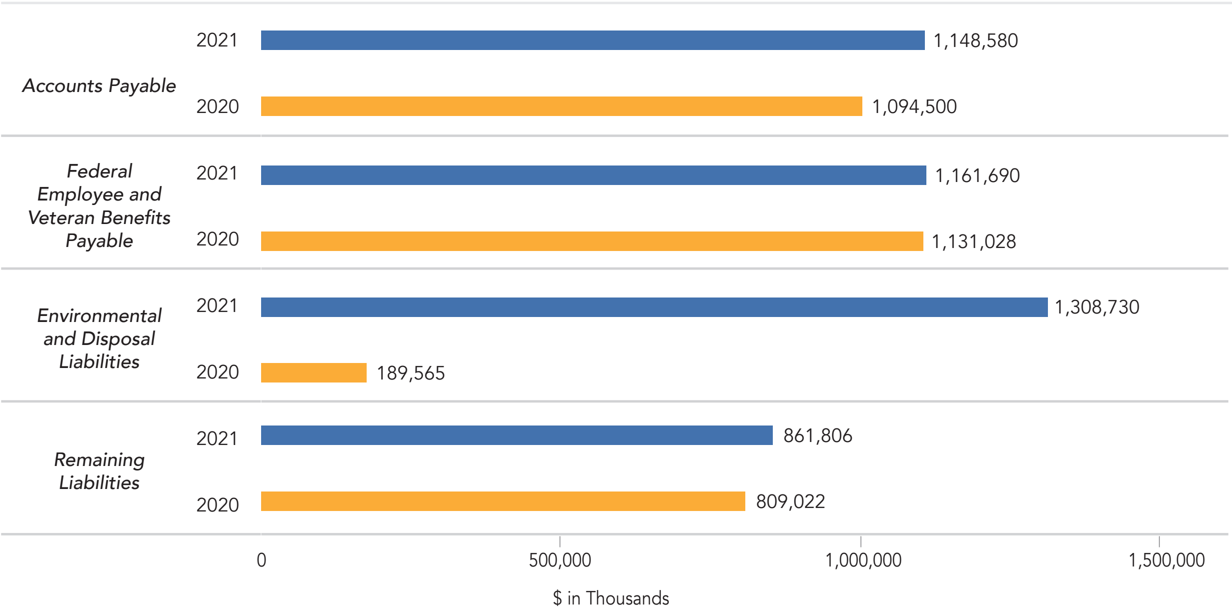



**Figure 8. Analysis of Liabilities**

## Analysis of Net Cost

Gross Costs increased by $2,868,745 thousand or 10.1%, compared to FY2020. This variance is attributable to more timely expense recognition resulting from improved communications/reconciliations with trading partners impacting operating expenses, and improved accountability over non-ammunition issuance related expenses impacting other expenses not requiring budgetary resources.

Earned Revenue decreased by $40,230 thousand or 11.8%, compared to FY2020. This variance is primarily due to overall decreases within reimbursable labor activities at HQMC, military interdepartmental purchase requests related reimbursable activity, and travel expenses related to reimbursable agreements. Overall, these decreases are correlated to the restricted activity from the Coronavirus Disease 2019 (COVID-19) pandemic.

During FY2020, the USMC was appropriated funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act to prepare for, prevent, and respond to outbreaks related to COVID-19. The USMC's COVID-19 funding objectives were to maintain readiness, protect the force, and prevent loss of essential functions. The USMC did not have residual budgetary resources available subsequent to FY2020 and in FY2021, funding is solely comprised of $99,651 thousand from base appropriations to address COVID-19 related expenses. The base appropriations were obligated to provide Non-Appropriated Fund Activity support, information technology (IT) service enhancement in support of telework and social distancing efforts, enhanced sanitation efforts, quarantine implementation, recruiting enhancements to maintain quotas, and to mitigate potential impacts at recruit training depots. The USMC's pandemic response activities did not result in any resources remaining available for obligation in FY2022.

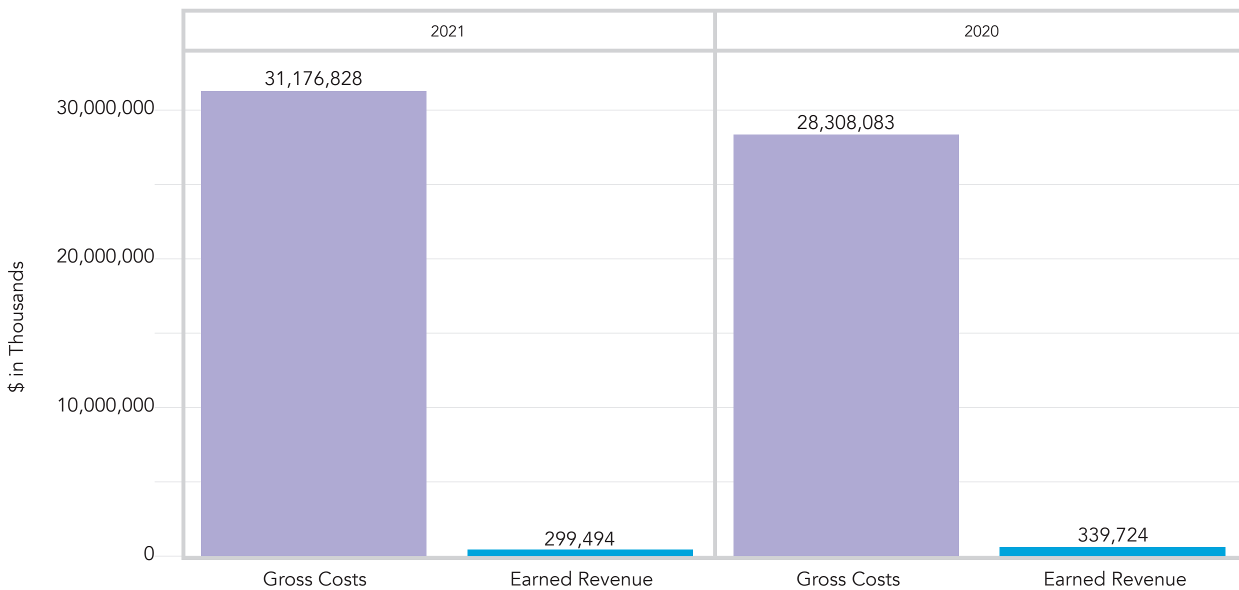



**Figure 9. Analysis of Net Cost**

## Analysis of Net Position

Budgetary Financing Sources: Appropriations transferred-in/out reflects an increase in net amounts transferred-out of $165,005 thousand, or 108.5%, compared to the prior year. The appropriations transferred-out balance remained relatively consistent between the two fiscal years, but there was a significant decrease in appropriations transferred-in during FY2021 resulting in the fluctuation. The main impact was from the USMC not receiving any COVID-19 CARES Act funding in FY2021, as that funding was an appropriation transferred-in only in FY2020.

Budgetary Financing Sources: Other Adjustments primarily consists of amounts returned to Treasury for cancelling years. The FY2021 cancelling amounts decreased by $261,203 thousand, or 50.9% due to the USMC's tightened controls over cancelling balances and increased validation efforts and execution of the Office of the Under Secretary of Defense (OUSD) dormant account review quarterly process.

Prior Period Adjustments: Changes in accounting principles of $(1,371,794) thousand in FY2021 represents the period adjustments recognizing the increase in environmental liabilities from revising the asbestos estimating methodology and adjustments recorded during the first two quarters of the fiscal year for property remediation activities. The changes in accounting principles of $1,753,438 thousand in FY2020 represents property remediation activities related adjustments recorded during the entire FY2020.

Other Financing Sources: Transfers-in/out without reimbursement decreased by $432,674 thousand, or 60.9%, compared to the prior year. This decrease is primarily attributable to less military construction appropriation funded real property assets transferred-in compared to the prior year, due to lengthy construction periods for these types of assets. In addition, this decrease is attributable to less real property host installation transfer activities compared to the prior year, when the OUSD policy was implemented, directing each service to report real property assets based on physical location.

Other Financing Sources: Other fluctuated by $1,627,127 thousand, or 175.8%, compared to the prior year. This variance is due to Operating Materiel and Supplies and General Property, Plant, & Equipment remediation activities in the last two quarters of FY2021 recorded as gains and losses adjustments, whereas such activity was treated as prior period adjustments in the prior year.

## Analysis of Budgetary Resources

The majority of USMC's budgetary resources consists of appropriated funds from Congress. These appropriations are General Funds for the purpose of military and reserve personnel pay and benefits; finance operations and maintenance; procurement of weapons, tracked combat vehicles, guided missiles and equipment, communications and electronic equipment, support vehicles, engineer and other support equipment, spares and repair parts; contributions for the Medicare Eligible Retiree Health Fund; and funding for research, development, test, and evaluation programs. The USMC's only Special Fund consists of dedicated collections subject to specific requirements as discussed at Note 15, *Funds from Dedicated Collections*. The USMC also generates and recognizes exchange revenue for rent and utilities reimbursement from commercial vendors and other federal entities operating out of USMC installations, royalties from licensing and trademark agreements, out leases for agriculture activities on USMC installations, and from performing reimbursable activity for Federal and non-Federal customers.

Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) increased by $275,007 thousand, or 17.8%, compared to the prior year due to less obligation recognition in FY2020 resulting in a higher carryover beginning balance. During FY2020, the COVID-19 pandemic lockdowns affected the USMC's typical recording of obligations specific to operations, readiness, and support related appropriations and procurement appropriations activities.

Apportioned, Unexpired Accounts decreased by $159,123 thousand, or 16.0%, compared to the prior year from the USMC's receipt of reduced appropriated funding in FY2021 compared to the prior year in operations and maintenance appropriations and procurement appropriations. In addition, the USMC's obligations, and operational activities in FY2021 increased compared to during COVID-19 lockdowns in FY2020, which correlates with increased operating expenses reflected on the Statement of Net Cost.

Distributed Offsetting Receipts balance represents suspense account clearing activity at year end for the respective year.

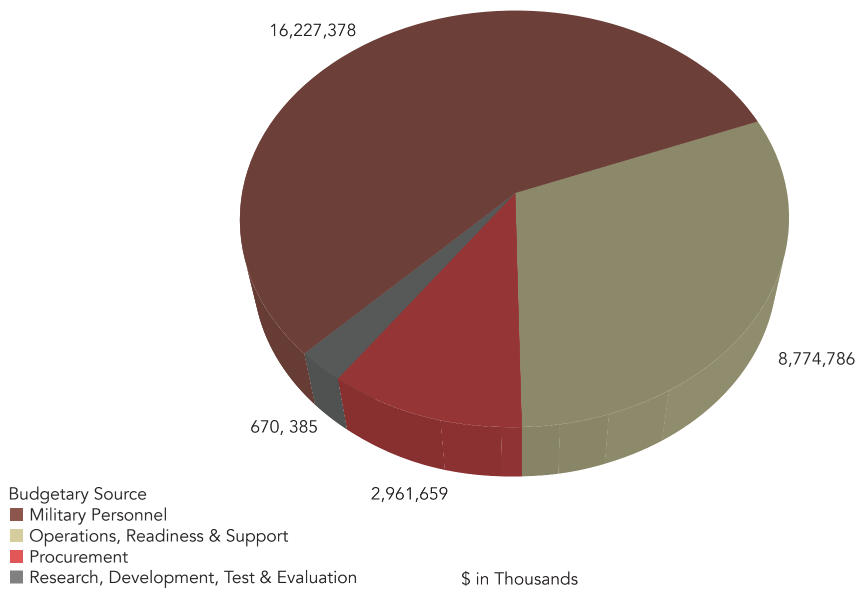



**Figure 10. Analysis of Appropriations**

Further discussion of account balance composition and analysis of variances in reported amounts are presented in Section 2 - Financial Information, Notes to the financial statements.

## Limitation of Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the USMC, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of the USMC in accordance with Federal Generally Accepted Accounting Principles and the formats prescribed by OMB. Reports used to monitor, and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

### Fiscal Year 2021 Management Assurances

The Marine Corps is responsible for identifying and managing risks, and maintaining internal controls and financial systems that provide reasonable assurance of achieving the control objectives outlined within Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). These objectives consist of effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations. Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, provides specific requirements for conducting assessments of risk and internal controls for compliance with the FMFIA. The Managers' Internal Control Program performs internal assessments to determine adherence to these requirements.

Based on the results of these assessments during FY21, the Marine Corps reported material weaknesses related to Section 2 of FMFIA in the following areas:

- Entity-Level Controls
- Disbursements and Fund Balance with Treasury Reporting
- Financial Accounting and Reporting Processes
- Entity-wide Cyber Security
- Budgetary and Business Process Controls
- Asset Accountability and Reporting

The Marine Corps also reported material non-compliance with Section 4 of FMFIA in the following areas:

- Financial Accounting and Reporting Systems
- Logistics Systems General Controls
- Personnel and Payroll Application Controls

Consequently, the Marine Corps provides no assurance on Internal Controls over Financial Reporting and Internal Controls over Financial Systems, and provides modified assurance over Internal Controls over Operations.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires Marine Corps management to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, Federal accounting standards, and the *United States Standard General Ledger* (USSGL) at the transaction level. The Marine Corps is reporting non-compliance with the FFMIA as of September 30, 2021.

Further details regarding the material weaknesses and the status of corrective action plan activities for FMFIA and FFMIA compliance can be found within the Analysis of Systems, Controls, and Legal Compliance section of this document. The Marine Corps will continue to refine its business processes and improve its internal control environment moving forward in order to tackle the deficiencies that underpin our material weaknesses.

David H. Berger
General, U.S. Marine Corps
Commandant of the Marine Corps

Commanders and managers throughout the Marine Corps are responsible for the integrity of their programs and operations. Part of this responsibility entails compliance with Federal requirements for internal controls that address financial reporting, financial systems, and non-financial operations promulgated by the FMFIA and the FFMIA. These requirements promote the production of more timely, reliable, and accurate financial information for management and external stakeholders, supported by the development and implementation of more effective internal controls. Useful financial information and effective controls save resources and improve efficiency, and enhance public confidence in our stewardship of public resources, which is critical for the protection and sustainment of our Nation and its vital interests.

In order to comply with applicable laws and regulations, the Marine Corps requires Commanders and managers at all levels to establish and continuously maintain an active Managers' Internal Control Program (MICP) to align with FMFIA and OMB Circular No. A-123 requirements. The MICP evaluates and reports on the effectiveness of internal controls throughout the organization to ensure effective operations, safeguards against fraud, waste and mismanagement, and aids in the compliance with laws and regulations regarding Internal Controls Over Operations, Internal Controls Over Financial Reporting (ICOFR), and Internal Controls Over Financial Systems (ICOFS). Additionally, Commanders and managers at all levels are required to properly integrate risk management practices and internal control functions to effectively and efficiently identify, assess, manage, and report risks.

OMB Circular No. A-123, Appendix A, *Implementation Plans*, provides specific requirements for conducting management's assessment of internal controls over reporting and requires the agency head to provide an assurance statement on the effectiveness of controls. The FMFIA assurance statement provides an assessment of the effectiveness of the Marine Corps' internal controls to support effective and efficient programmatic operations, reliable financial reporting, compliance with applicable laws and regulations, and whether financial management systems conform to applicable financial systems requirements.

The implementation of a comprehensive Enterprise Risk Management (ERM) framework capability is underway. ERM specifies that agencies must identify, measure, and assess risks to include effective internal controls into existing functions related to the Marine Corps agency's mission. ERM will enhance the Marine Corps' decision-making process in pursuit of achieving its strategic objectives. It is being developed to conform and comply with the strategic planning and strategic review processes established by the Government Performance and Results Modernization Act, the internal control processes required by FMFIA, OMB Circular No. A-123, the Government Accountability Office's (GAO's) *Standards for Internal Controls in the Federal Government* (i.e., the Green Book) and other applicable federal regulations.

In addition, OMB Memorandum M-18-16 recognizes that the data published in accordance with the *Digital Accountability and Transparency Act of 2014* (DATA Act) is reliant upon agencies having controls in place to ensure data quality; as a result, DoD is requiring components to support data quality improvement efforts and evaluate their business processes and leverage business processes already in place to assess controls and data quality for the DATA Act.

The Marine Corps supports an agency-wide approach to address and prioritize both external and internal risks among all its major assessable units. As a result, a continuous and evolving risk profile is maintained through a variety of sources including the Annual Statement of Assurance, MICP inputs, and other audit findings. When risk assessments are performed annually and reviewed, the most significant risks are prioritized to address the greatest inherent risks to the organization. The risk assessments also take into consideration the Marine Corps' risk tolerance given the relative importance of the related objective and risk appetite.

The MICP program assists in ensuring an effective program for the agency and performs continuous OMB Circular No. A-123 assessments to evaluate the design and effectiveness of internal controls. The Marine Corps has not yet completed updating all of its business process narrative documents to facilitate effective OMB Circular No. A-123 assessments. Therefore, the MICP is training various business process owners how to document their as-is business processes, identify control points, and report gaps that will require corrective actions.

The following actions were undertaken to assess and improve internal controls during FY2021.

- Developed new test of design procedures and performed ICOFR control testing over the areas of Financial Statement Compilation and Reporting (FSCR) and Fund Balance with Treasury (FBWT). Based on the results of these assessments, the FSCR controls that were tested are being performed consistently and with supporting documentation. The FSCR controls that were tested are operating to meet elements of the related control objectives.

- MICP testing over the FBWT process was limited to select key controls identified as operating effectively by the process owner and not those that are still in remediation that are needed to effectively mitigate the financial reporting risks. The FBWT key controls tested were supported with sufficient documentation evidencing review of the reconciliations.

- The Marine Corps is redesigning its financial monitoring and oversight controls for information submitted through various feeder systems. The enhanced monitoring control will create a more reliable data validation framework and meet the overall control objectives for the FSCR and FBWT process areas. The in-progress remediation will reduce the risk of improper balance adjustments and improve the reliability of financial reporting.
- Completed a fraud risk assessment for eight business process areas.
- Tested and validated key general controls for selected financially relevant systems (Standard Accounting Budgeting and Reporting System (SABRS), SABRS Management Analytical Retrieval Tools, Marine Corps Total Force System (MCTFS), and Marine Corps Order Resource System (MCORS) Global Combat Support System-Marine Corps) and Corrective Action Plans (CAPs) to support the Marine Corps' effort to remediate identified deficiencies. The validation of remediation actions confirmed improvement in internal controls related to Segregation of Duties (SOD), Access Management, Security Management and Configuration Management (CM). However, areas that still need improvement were also identified and management is implementing enhanced governance of system controls, where needed.
- Established a Shared Service Provider Governance Program intended to formalize and strengthen Marine Corps' oversight of Complementary User Entity Controls (CUECs) required for effective ICOFR and ICOFS. Planned improvements in progress include: the refinement of assessments, documentation of user control assumptions, and enhancement of internal testing of required complementary internal controls to ensure that they are implemented and operating effectively.
- The Marine Corps is enhancing its IT control oversight and governance programs, including the refinement of assessments, control assumptions, and enhancing the testing of internal controls.

OMB Circular No. A-123, Section V, *Correcting Internal Control Deficiencies*, identifies that correcting control deficiencies is an integral part of management accountability and must be considered a priority. The Marine Corps is working to resolve material weakness control deficiencies identified during prior financial statement audits and OMB Circular No. A-123 testing through the effective development and monitoring of CAPs.

The Marine Corps requires Commanders and managers at all levels to perform a root-cause analysis of any deficiencies to ensure that the CAPs will resolve the underlying problem. MICP facilitates the implementation and validation of CAPs to ensure material weaknesses are remediated and closed out in line with developed leadership initiatives, strategies, and timelines.

The status of the Marine Corps' unresolved material weaknesses are as follows:

| Material Weakness | Summary Description | Corrective Actions and Status |
|---|---|---|
| Asset Accountability and Reporting | The Marine Corps cannot provide sufficient appropriate evidence to support the existence, completeness and proper valuation of its capital assets, including real property, equipment, and operating materials and supplies (OM&S). | The Marine Corps has significantly improved its asset accountability and reporting controls in FY2021. Extensive record clean-up was performed on real property records globally. Additional inventory validation reporting requirements were introduced. Monthly and quarterly asset accountability analyses are performed over reported balances to address abnormal conditions and understand fluctuations. Additional progress includes the improved reconciliation and financial reporting of OM&S; development of a process to report ammunition in development; and enhancement of the process to properly report military equipment upon delivery (birthing).<br><br>Corrective actions are estimated to be completed in FY2023. |
| Budgetary and Business Process Controls | The Marine Corps has various deficiencies in its processes and controls to properly execute, document, record and track budgetary and business activities pertaining to reimbursable agreements, interagency and intragovernmental revenue, and proper recognition of obligations, receipt, acceptance and returns of goods and services, and expenses. Specifically, the Marine Corps did not obtain fully executed agreements with its trading partners before recording unfilled customer orders or budgetary authority for advances; record expenses properly or with proper evidence of receipt or acceptance; record obligations properly prior to disbursing funds; record obligations with proper support; adequately support accounting estimates; and restrict payments made in excess of obligated amounts. | The Marine Corps has implemented G-Invoicing for the tracking of General Terms & Conditions agreements with its trading partners and is working to implement and integrate the Order, Invoicing, and Receipt and Acceptance functionality requirements to meet the U.S. Treasury mandate of October 2022 for full implementation.<br><br>This will assist in addressing current accounting and reporting challenges by providing a common platform for brokering all Intragovernmental Transactions (IGT) buy/sell activity; implementing a federal IGT buy/sell data standard; and providing transparent access to a common data repository of brokered transactions.<br><br>The Defense Agencies Initiative (DAI) implementation will incorporate acquisition modules that address various deficiencies related to the proper recording of obligations and expenses.<br><br>Corrective actions are estimated to be completed in FY2023. |

| Material Weakness | Summary Description | Corrective Actions and Status |
|---|---|---|
| Financial Accounting and Reporting Processes | Financial reporting processes are not effectively designed or fully implemented to support accurate and reliable financial statements or other reports. The Marine Corps has not designed sufficient financial management analysis over SABRS and Defense Departmental Reporting System (DDRS) data and balances in support of its ICOFR. | The Marine Corps continues to develop and enhance oversight controls over service organization activities pertaining to financial reporting activities. The USMC continues to refine its quarterly financial analyses over reported balances to address abnormal conditions and/or understand fluctuations in balances.<br><br>The Marine Corps used a statistical model to develop an accounts payable estimate for non-Federal contracts using subsequent disbursement lag rates. This methodology will continue to be validated to refine the precision of the recorded accrual amount related to non-Federal accounts payable.<br><br>Remaining corrective actions are estimated to be completed in FY2023. |
| Disbursements and Fund Balance with Treasury Reporting | Treasury disbursement reporting and fund balance reconciliation processes are not effectively designed or fully implemented to support accurate and reliable financial statements or other reports. The Marine Corps has not designed and implemented a methodology to determine the financial reporting impact of the suspense and SOD balances to the Marine Corps' financial statements, nor formalize its approach for processing discontinued research packages (DRPs) in accordance with the DRP requirements. The Marine Corps has also not designed all necessary internal control activities in its policies and procedures, including full consideration of CUECs, to address risks to its FBWT. Additionally, the Marine Corps has not sufficiently coordinated with offices that disburse on its behalf to obtain detailed cross-disbursement records in the accounting period in which they were processed. Lastly, the Marine Corps lacks the support at the transaction level to determine the portion of its shared appropriations net disbursements from DoN. | The Marine Corps assessed the materiality of each Disbursing Station Symbol Number affecting the Statement of Differences balances to prioritize remediation efforts. An analysis was also performed to extract the root cause impacting suspense accounts and courses of actions. The Marine Corps will work to reconcile collections and disbursement transactions and establish internal controls to ensure completeness and accuracy of data inputted into the Defense Cash Accountability System.<br><br>Corrective actions are estimated to be completed by FY2023. |

| Material Weakness | Summary Description | Corrective Actions and Status |
|---|---|---|
| Entity Level Controls | USMC has not fully implemented, or documented the implementation of its entity-level controls (ELC). | A detailed project plan has been developed to identify, assess, and document policies and procedures illustrating entity-level controls in place to achieve the objectives of each principle ascribed by GAO's Green Book.<br><br>The Marine Corps performed a gap analysis of the current system of internal control to the GAO Green Book and identified principles and/or attributes that are missing or require improvement. The Marine Corps utilized the guidance within OMB Circular No. A-123 to implement effective ELCs that are relevant to the preparation of its financial statements.<br><br>Corrective actions are estimated to be completed by FY2023. |
| Entity-wide Cybersecurity | USMC has not established a properly designed and implemented cybersecurity monitoring program. | The Marine Corps is in the process of implementing a consistent process for user account management and provisioning, user account recertification, and uniform logging, and consistent monitoring of activity for all key financial management systems.<br><br>We established and published an enterprise wide SOD policy, impacting all levels of the organization. A SOD Implementation Plan was designed and socialized, and it is being executed in coordination with functional area managers and system owners. USMC has implemented a Risk Management Framework (RMF) and promulgated existing enterprise RMF guidance to address deficiencies in the information system environment on a system-by-system basis. Director, Information, Command, Control, Communications, and Computers (IC4) is supporting the efforts by integrating security management and performing risk assessment activities.<br><br>To address CM deficiencies, USMC is reviewing and updating enterprise CM policies and procedures that address the CM process, purpose, scope, roles, responsibilities, compliance, and procedures. IC4 is implementing a consistent process across USMC for managing interface controls on a system-by-system basis by updating Interface Control Documents and interface policies and procedures.<br><br>Corrective actions are estimated to be completed in FY2023. |

The Marine Corps continued to evolve the Marine Corps Managers' Internal Control Remediation and Reporting (MICRR) application for all users. The MICRR application is a comprehensive application platform to standardize and modernize risk management and internal controls to comply with applicable standards for conducting the MICP across the USMC Enterprise. The application is designed to assist the Marine Corps with performing internal control activities and contains built in fraud reduction capabilities at the entity, process, and transaction level. It will support the MICP, Entity-Level Controls, reporting of financial systems and operational Statement of Assurance, CAPs, notifications of findings and recommendations, audit, risk management, remediation, and fraud, with reporting and collecting data.

The USMC reports material non-compliance in the following areas:

| Material Non-Compliance | Summary Description | Corrective Actions and Status |
|---|---|---|
| Financial Accounting and Reporting Systems | The core financial management system is not configured to capture complete transactional data accurately to generate proper financial statements. The SABRS system contains several inherent deficiencies that impact its ability to provide complete and accurate data to properly support financial balances, activity, and related reconciliations. | DC P&R directed migration to a new core financial management system from SABRS to the DAI in FY2022. Management accepted risk on SABRS deficiencies in FY2021 because of this migration.<br><br>Corrective actions will commence after migration in FY2022. |
| Logistics Systems General Controls | Several logistics systems contain deficiencies in their general controls that impact the reliability of the information used by management for operational, financial and compliance reporting. | DC(I) has established entity level policies and procedures for common general controls to be applied across all Marine Corps owned applications. Each command is responsible for remediation efforts for systems under their purview. DC(I&L) has established a system control monitoring program that develops CAPs, monitors remediation efforts, and reviews artifacts supporting milestone and deficiency correction completion.<br><br>DC (I&L) has made significant progress in remediating system general control deficiencies:<br><br>• Global Combat Support System-Marine Corps: all remediation efforts completed and are in validation; Contingency Planning validated.<br>• All remediation efforts completed and are in validation for Standard Procurement System and eMarketplace.<br>• Third party system CUECs were completed for the Defense Property Accountability System.<br>• Ordnance Information System-Marine Corps: The new application went live in FY2021 on a cloud environment with substantially all general controls implemented.<br><br>Corrective actions are estimated to be completed in FY2023. |

| Material Non-Compliance | Summary Description | Corrective Actions and Status |
|---|---|---|
| Personnel and Payroll Application Controls | The USMC has various personnel and payroll related operational and financial systems with various application control level deficiencies.. | The Marine Corps evaluated Personnel and Payroll Application Controls Deficiencies for underlying causes. DC (M&RA) has made progress in correcting selected personnel and payroll related system controls, including::<br>• MCTFS SOD<br>• MCORS Management<br>• MCORS Baseline<br>Corrective actions are estimated to be completed in FY2023. |

In FY2021, the Marine Corps developed an Audit Roadmap that outlines the critical remediation tasks, dependencies, and timelines for completion. Several of the material weaknesses and non-compliances listed above, as well as other key initiatives scheduled for completion in FY2022, including the DAI implementation, are critical to resolving the root causes of our FFMIA non-compliance.

## Compliance with Other Key Legal and Regulatory Requirements

### Federal Information Security Modernization Act

*The Federal Information Security Modernization Act of 2014* (FISMA) requires each Federal agency to evaluate and test the effectiveness of its information security programs. Federal agencies are required to implement a mandatory set of processes and system controls designed to ensure the confidentiality, integrity, and availability of system-related information. The processes and systems controls in each federal agency must follow established Federal Information Processing Standards, National Institute of Standards and Technology (NIST) standards, and other legislative requirements pertaining to federal information systems, such as the *Privacy Act of 1974*. The results are utilized to effectively govern the business processes of the Marine Corps surrounding compliance with FISMA and incorporated into the overarching ERM strategy across the enterprise.

To facilitate FISMA compliance, the Marine Corps maintains a cybersecurity capability for information security management designed to protect Marine Corps IT resources. The Marine Corps determines the processes necessary to mitigate new threats and anticipate risks posed by new technologies, and detect and respond to incidents. The program also follows NIST's cybersecurity framework for making risk-based determinations. Integration of cybersecurity with enterprise risk management has been improved by bringing cyber risk discussions to the forefront and prioritizing responses that mitigate those risks.

Annually, the Marine Corps addresses 16 FISMA metrics in the FISMA report. The Marine Corps provides the systems with security authorization to operate data metrics through our Marine Corps Compliance and Assessment Support Tool, which are submitted to the DoD CIO Enterprise Reporting System. In 2021, the Marine Corps reported 184 FISMA reportable systems, 178 systems with current Authority to Operate (ATO) with a 97% ATO authorization rate. Marine Corps has identified systems with Interim ATOs and 169 Plan of Actions and Milestones to be remediated over the next year. The additional metrics are provided from automated updates collected by Marine Corps Cyberspace Operations Group and other networks reported monthly through various databases. A monthly FISMA message is also generated automatically to the Marine Corps systems and network owners regarding the metrics status in preparation for the annual FISMA submission in September. The Marine Corps is working towards a more consistent reporting capability for the metrics through the Information Security Continuous Monitoring and Comply-to-Connect efforts.

### Anti-deficiency Act

The *Anti-deficiency Act* (ADA) prohibits Federal agencies from: 1) obligating or expending funds in excess of the amount available in the appropriation or fund unless authorized by law (31 U.S.C. § 1341(a)(1)(A)) or obligating funds before they have been appropriated, unless otherwise allowed by law (31 U.S.C. § 1341(a)(1)(B)); 2) accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property (31 U.S.C. § 1342); or 3) obligating or expending funds in excess of an apportionment or reapportionment or in excess of the amount permitted by agency regulations (31 U.S.C. § 1517(a)). An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). As required by the ADA, the Marine Corps notifies all appropriate authorities of any potential ADA violations.

As of September 30, 2021, the agency submitted one formal report of ADA violations to the President, through the Director of the OMB, President of the Senate, Speaker of the House of Representatives, and the Comptroller General of the United States. The Marine Corps violated federal statutes, totaling $70,100 thousand, by expending funds in excess of the amounts appropriated and available for the construction of training structures in eight different geographic locations. The Marine Corps implemented a number of measures to prevent a recurrence of these violations, such as updating policies and guidance, and improving procedures and internal controls. The ADA violation was reported within the GAO annual compilation of ADA reports.

### Digital Accountability and Transparency Act

The DATA Act amended the *Federal Funding Accountability and Transparency Act of 2006* to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on USASpending.gov. The goal of the law is to improve the ability of the public to track and understand how the government is spending their tax dollars. The Marine Corps utilizes the Office of the Secretary of Defense Advanced Analytics (ADVANA) tool and team to ensure all Federal reporting requirements under OMB M-20-21 *"Appendix A to OMB Circular No. A-123, Management of Reporting and Data Integrity Risk"* are met for DATA Act reporting.

Current initiatives include implementation next steps to track, monitor, and report DATA Act requirements to include financial data, procurement data, and awardee and sub-award information. Specific system change requests are under development to capture and transmit essential data elements to the DDRS, the DoD financial reporting system. Weekly transmissions are submitted to ADVANA of all required data elements, including the ability to track disaster and emergency funding by Disaster Emergency Fund Code and contingency code. The Marine Corps utilizes the Standard Industrial Classification Code to track both of these elements for obligations and expenditures and outlays. The ability to trace procurement expenditures and obligations for supplies and services back to the budget streams which funded them allows government leadership and the American taxpayer to understand which procurement instruments are being used to execute specific funds.

## System Strategy, Overview of System Framework, Synopsis of Critical Projects

The Marine Corps governs compliance of its financially relevant applications and systems by monitoring their alignment with the RMF, testing selected key internal controls, reported deficiencies, and leveraging the ongoing monitoring performed by individual systems owners. The focus of the systems portfolio strategy is to improve financial management, performance, and compliance with applicable regulations such as OMB Circular No. A-123 and NIST Special Publication 800-53, among others.

The Marine Corps' current and future financial management systems framework relies on its critical general ledger systems. Those systems most critical to that framework and effective agency wide financial management systems are SABRS and DAI.

In FY2020, DC P&R, in coordination with OSD Comptroller and Assistant Secretary of the Navy Financial Management and Comptroller, directed the Marine Corps to provide a financial management system that supports audit compliance; drives enterprise-wide efficiencies and improvements through business transformation and optimization; enables effective decision-making through enhanced confidence in data management; and establishes an agile platform that fully supports scalability for future growth. SABRS has been the Marine Corps authoritative accounting system since 1991. This system was developed by Marines for Marines, and has served the Marine Corps well, also supporting the DoN consolidation to two general ledger systems.

Based on the expected effort to fully remediate the deficiencies in SABRS, USMC has initiated plans to replace SABRS with DAI in FY2022. DAI is an Oracle E-Business Suite Enterprise Resource Planning system that is developed and maintained by the Defense Logistics Agency through executive sponsorship from the Office of the Secretary of Defense. DAI addressed the requirements around accounting services; procurement; time and attendance; data management; planning, programming, budgeting, execution, and assessment; and business process efficiency of the USMC while supplying a solution that was built on audit compliance and alignment with financial and regulatory standards. Transitioning the Marine Corps to DAI focused on migration to a system that positions the Marine Corps to align data strategy and implement policy to enforce data integrity and systematically mitigate the risk for potential erroneous data entry.

The USMC DAI implementation will develop more than just an accounting or financial management system, but a comprehensive business mission management system with standard end-to-end business processes which, when deployed in collaboration with the DoD Service, will:

- Streamline financial management capabilities,
- Improve the accuracy and efficiency of financial reporting capabilities,
- Resolve material weaknesses, and
- Achieve financial statement auditability across DoD service.

Other key financial systems are undergoing assessments and planned migration activities for their transition into the new DAI platform that will enhance their functionality, compliance, and security.

Internal testing promotes a strong internal control environment, an advanced business understanding of functional processes and interfaces, and allows for a shift from a compliance driven strategy to a sustainable security focused control environment. A continuous validation and monitoring process will enable Marine Corps stakeholders to proactively identify and mitigate control gaps and better enhance the internal control environment. The Marine Corps is continuously working to enhance the design and implementation of controls to better safeguard their assets, promote accountability, increase efficiency, and eliminate fraudulent behavior across end-to-end business processes.

The Marine Corps System Strategy supports the implementation of the risk management framework requirements to monitor security controls continuously, determine the security impact of changes to the DoD Information Network and operational environment, and conduct remediation actions to comply with FISMA requirements and the mitigation of identified financial system risks.

RMF risk assessments are crucial to an effective information security program and the USMC has enhanced policies and procedures to ensure that the risk management program and guidance provided to supporting organizations is compliant with DoD regulations and guidelines. In FY2021, the Marine Corps renewed its efforts and re-directed its resources to establish a comprehensive top-down risk assessment that is compliant with NIST RMF and supports the enhancement of the internal control framework that would mitigate vulnerabilities and risks specific to the system. The goal is to remediate known deficiencies and to move forward with enhancing compliance of system security control documentation, continuous monitoring policies and procedures and internal control testing. The Marine Corps plans to utilize the information from the risk assessments to streamline our account management and system interface processes, focusing Marine Corps' near-term efforts on improving and implementing the financial business processes and related interfaces and account management controls.

# FORWARD LOOKING INFORMATION

The coming decade will be characterized by conflict, crisis, and rapid change — just as every decade preceding it. And despite our best efforts, history demonstrates that we will fail to accurately predict every conflict; will be surprised by an unforeseen crisis; and may be late to fully grasp the implications of rapid change around us. While we must accept an environment characterized by uncertainty, we cannot ignore strong signals of change nor be complacent when it comes to designing and preparing the force for the future.

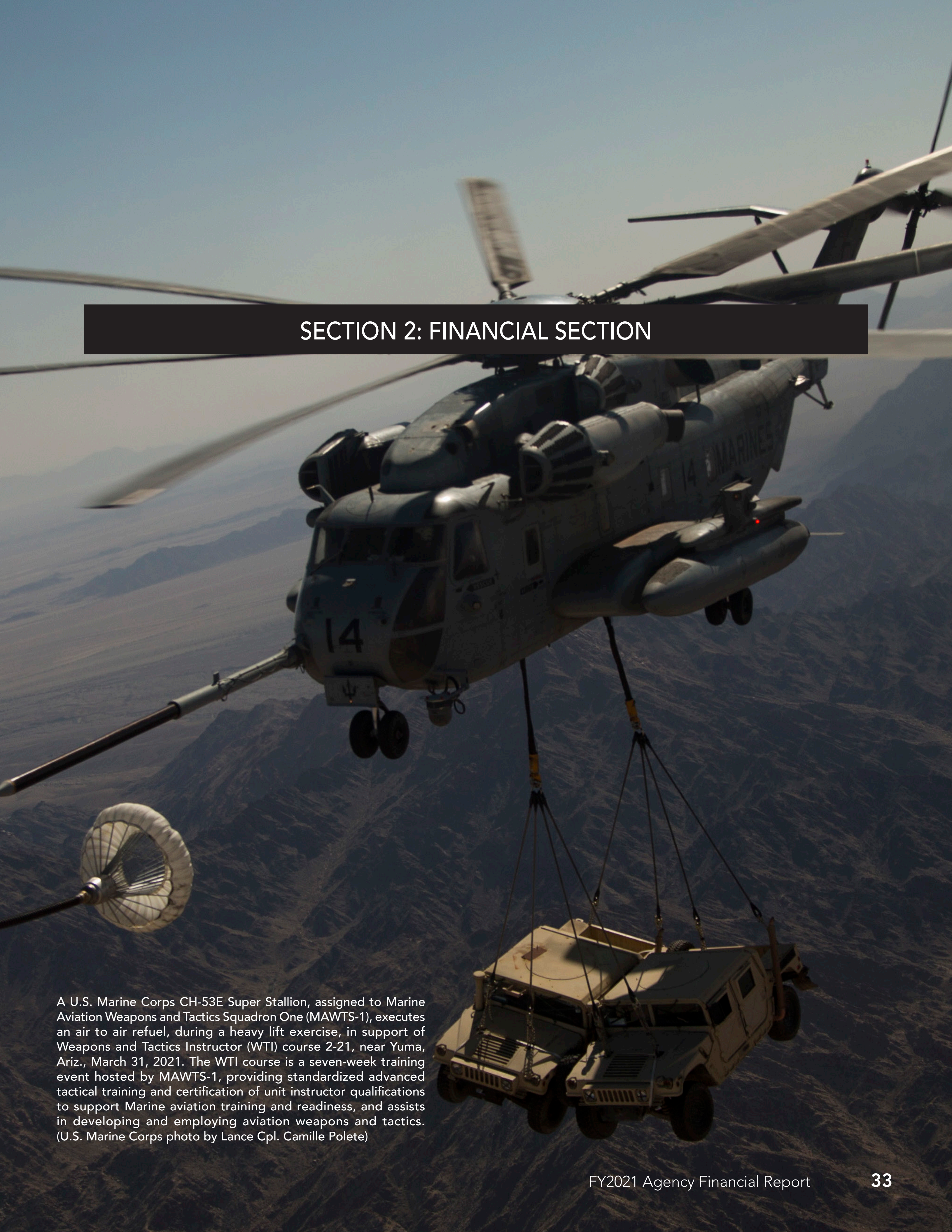
What is abundantly clear is that the future operating environment will place heavy demands on our Nation's Naval Services. The Marine Corps will be trained and equipped as a naval expeditionary force-in-readiness prepared to operate inside actively contested maritime spaces in support of fleet operations. In crisis prevention and crisis response situations, the Fleet Marine Force — acting as an extension of the Fleet — will be first on the scene, first to help, first to contain a brewing crisis, and first to fight if required to do so.

The scope of change required is a generational undertaking - one that will not be completed during a single commandant's tenure. We now have a clear understanding of the suitable size for our aviation element, better insights on how to evolve the Marine Littoral Regiment and Infantry Battalion, and a significantly enhanced understanding of the need to succeed in the Command, Control, Communications, Computers, Combat Systems, Intelligence, Surveillance, and Reconnaissance (C5ISR) versus counter-C5ISR competition. Thus, there are some force design changes we can confidently make today, while other areas, to include talent management, training, and logistics require additional analysis.

Our ability to innovate is a hallmark of the Marine Corps. It demands rigorous intellectual work, coordination among a plethora of organizations and individuals, and a certain ruthlessness to abandon familiar ideas, capabilities, and platforms which no longer provide relative advantage. Much has been accomplished over the past year, yet much more remains to be done.

The Marine Corps will continue to work with the Congress to maintain a shared understanding of the urgent need for a change in force design and to secure funds required for the force design priorities. Furthermore, we will assess and revise current human resource policies and processes to retain talented Marines and civilians. Lastly, the Marine Corps will implement necessary reforms in the areas of training and education to maintain technical advantage over our adversaries.

# SECTION 2: FINANCIAL SECTION




A U.S. Marine Corps CH-53E Super Stallion, assigned to Marine Aviation Weapons and Tactics Squadron One (MAWTS-1), executes an air to air refuel, during a heavy lift exercise, in support of Weapons and Tactics Instructor (WTI) course 2-21, near Yuma, Ariz., March 31, 2021. The WTI course is a seven-week training event hosted by MAWTS-1, providing standardized advanced tactical training and certification of unit instructor qualifications to support Marine aviation training and readiness, and assists in developing and employing aviation weapons and tactics. (U.S. Marine Corps photo by Lance Cpl. Camille Polete)

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 8, 2021

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
COMMANDANT OF THE MARINE CORPS
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE NAVY

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Marine Corps General Fund Financial Statements and Related Notes for FY 2021 (Project No. D2021-D000FS-0048.000, Report No. DODIG-2022-025)

We contracted with the independent public accounting firm of Ernst & Young, LLP, (EY) to audit the U.S. Marine Corps (USMC) General Fund Financial Statements and related notes as of and for the fiscal year ended September 30, 2021. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the USMC General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). EY's Independent Auditor's Report is attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the USMC General Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the USMC General Fund FY 2021 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with Government Auditing Standards," discusses eight material weaknesses related to the USMC General Fund's internal controls over financial reporting.* Specifically, EY's report concluded that the USMC did not design or implement effective internal controls to:

- address the five components of internal control—an effective control environment, risk assessment, control activities, information and communication, and monitoring activities;
- produce reliable financial statements, accompanying notes, and related disclosures;
- reconcile and report Fund Balance With Treasury;
- appropriately report and disclose General Property, Plant, and Equipment balances within the financial statements;
- report and disclose Operating Materials and Supplies balances within the financial statements;
- ensure only authorized users have access to financial management systems and users do not have incompatible functions within a system;
- verify only authorized applications and software programs are placed into production; and
- ensure timely, accurate, and complete processing of information between applications.

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with Government Auditing Standards," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the USMC General Fund's financial management systems did not comply with the Federal Financial

* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's report and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the USMC General Fund FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the USMC General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2021 report, and the conclusions expressed within the report.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Attachment:
As stated

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Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

# Report of Independent Auditors

The Commandant of the United States Marine Corps and the
Inspector General of the Department of Defense

## Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the General Fund of the United States Marine Corps (USMC), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended, and the related notes to the financial statements (financial statements).

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### *Departures from U.S. Generally Accepted Accounting Principles*

As described in Note 1, the USMC has not implemented certain accounting standards for the Department of Defense and the Federal government. The effect on the financial statement amounts involved is not currently determinable by the USMC and could be material.

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***Basis for Disclaimer of Opinion***

The USMC continues to have unresolved accounting issues and material weaknesses in internal controls that cause the USMC to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result, we cannot determine the effect of the lack of sufficient appropriate audit evidence on the USMC's financial statements as of and for the year ended September 30, 2021.

***Disclaimer of Opinion***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

***Report of Other Auditors on September 30, 2020 Financial Statements***

Other auditors were engaged to audit the consolidated financial statements of the USMC for the fiscal year ended September 30, 2020, who issued a disclaimer of opinion on those statements on November 9, 2020 as the they were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph.  We do not express an opinion or provide any assurance on the information.

*Other Information*

We were engaged for the purpose of forming an opinion on the financial statements that collectively comprise the USMC's financial statements. The Other Information, as listed in the Table of Contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. The Other Information has not been subjected to the auditing procedures applied in the engagement to perform an audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 8, 2021 on our consideration of the USMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the USMC's internal control over financial reporting or on compliance. Those reports are an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the USMC's internal control over financial reporting and compliance.

Ernst + Young LLP

November 8, 2021

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

# Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with Government Auditing Standards

The Commandant of the United States Marine Corps and
the Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, the financial statements of the General Fund of the United States Marine Corps (USMC), which comprise the consolidated balance sheet as of September 30, 2021, the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because the USMC was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

## Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered USMC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USMC's internal control. Accordingly, we do not express an opinion on the effectiveness of USMC's internal control. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to preparing performance information and ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below and in Appendix A as items I through VIII to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Material Weaknesses**

**I. Entity Level Controls**

FMFIA requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the entity's system of internal control, and prepare related reports. The USMC has not yet implemented a formal internal control program that would allow it to substantially comply with FMFIA, leading to inadequate control environment, risk assessment, control activities, information and communication, and monitoring processes. The combination of these deficiencies results in a material weakness. The matters related to Entity Level Controls are further described in Appendix A.

**II. Financial Reporting**

Financial Reporting encompasses all aspects of operations affecting the USMC's ability to produce reliable financial statements, accompanying notes, and related disclosures. The USMC's management has not adequately designed financial reporting controls and inappropriately relies on the USMC's financial reporting service provider to execute its responsibilities for the design, performance, and oversight of internal controls over financial reporting. The combination of these deficiencies results in a material weakness. The matters related to Financial Reporting are further described in Appendix A.

**III. Fund Balance with Treasury**

Fund Balance with Treasury (FBwT) represents the aggregate amount of funds in the USMC's accounts with the U.S. Treasury. Lack of policies, procedures, internal controls, and supporting documentation prevents the USMC from substantiating the reported balance on the financial statements and notes. The combination of these deficiencies results in a material weakness. The matters related to FBwT are further described in Appendix A.

**IV. General Property, Plant and Equipment**

General property, plant and equipment (GPP&E) is comprised of capitalized assets, with a useful life of more than two years, which includes buildings and structures, internal use software, general equipment and construction in progress. The USMC further defines general equipment into military equipment (i.e., weapons systems, components of weapons systems, and support equipment) and garrison property (i.e., office equipment and material handling equipment). The USMC has not designed or consistently implemented procedures, accounting policies, internal controls and systems to appropriately report and disclose GPP&E balances within the financial statements. The combination of these deficiencies results in a material weakness. The matters related to GPP&E are further described in Appendix A.

### V. Inventory and Related Property: Operating Materials & Supplies

Inventory and related property, also known as Operating Materials and Supplies (OM&S) represents items which are held for normal use in USMC operations. The USMC classifies OM&S as ammunition and non-ammunition. The USMC defines ammunition as any device charged with explosives, propellants or pyrotechnics used in connection with military operations or structural destruction. The USMC defines non-ammunition includes spare and repair parts, fuel, construction materials, clothing and textiles, medical and dental supplies and other items used to support the day-to-day operations of the USMC. The USMC has not designed or consistently implemented procedures, accounting policies, internal controls and systems to appropriately report and disclose OM&S balances within the financial statements. The combination of these deficiencies results in a material weakness. The matters related to OM&S are further described in Appendix A.

### VI. Financial Information Systems – Access Controls/Segregation of Duties

Access Controls involve the protection of application boundaries, user identification and authentication, account management (authorization, periodic review of access, removal of access), protection of financially significant transactions and system resources, and the monitoring of security violations impacting financial reporting activities. Segregation of Duties (SoD) controls involve the identification and authorization of SoD conflicts, prevention of incompatible activities, and monitoring of users with conflicting access (when allowable). We identified access control and SoD related deficiencies that represent a significant risk to the financial management information systems environment. The combination of these deficiencies results in a material weakness. The matters related to Access Controls and SoD and are further described in Appendix A.

### VII. Financial Information Systems – Configuration Management

Configuration Management involves the identification and management of an information system at a given point and systematic control changes to that configuration during the system's life cycle, from the initiation of a change request to the migration of a change to production, the protection of source code, the separation of access provisioned to developers and migrators, and the procedures for monitoring changes made to the production environment. We identified configuration management-related deficiencies that represent a significant risk to the financial management information systems environment. The combination of these deficiencies results in a material weakness. The matters related to Configuration Management are further described in Appendix A.

### VIII. Financial Information Systems – Interface Processing

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis. Specifically, interface controls involve the process for validating the financially significant interfaces to be run, validating if the interface edit checks are working as intended, the timing of the interface processing, validating that data sent and received is reconciled, and how interface processing errors are identified and remediated in a timely manner. We identified deficiencies related to interface processing that represent a significant risk to the financial management information systems environment. The combination of these deficiencies results in a material weakness. The matters related to Interface Processing are further described in Appendix A.

**Management's Response to Findings**

The USMC's response to the findings identified in our engagement to audit and relevant comments from the USMC's management are provided in their accompanying letter dated November 8, 2021. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an engagement to perform an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 8, 2021

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## Appendix A – Material Weaknesses

### I. Entity Level Controls

The Federal Managers Financial Integrity Act (FMFIA) requires the USMC to establish internal controls in accordance with standards issued by the Government Accountability Office (GAO). As defined by GAO's *Standards for Internal Control in the Federal Government* (i.e., GAO Green Book), "An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that the entity's objectives will be achieved." [1] Guidance provided by GAO notes that internal control is not a, "one time" event, but is comprised of a series of integrated tasks carried out by the entire organization. Internal control is not a finance function, but covers all aspects of the organization, including operations, reporting, and compliance. A properly designed and implemented internal control system is "built into", not "added on to", the everyday actions of the employees supporting an organization.

As defined by GAO, and furthermore expanded upon within the Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Internal Control*, an integrated internal control system is comprised of five over-arching components: Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring. The USMC has not implemented a formal internal control program which allows the USMC to assess if the design, implementation and operational effectiveness of these five components of internal control, therefore the USMC's internal control system is not operating effectively.

1. **Inadequate Control Environment**. The Control Environment is supported by principles which essentially set the tone for the entire organization. As envisioned by GAO and OMB, an entity should establish an oversight body, which includes key officials tasked with establishing the organizational structure, assigning responsibility, and effectuating change to ensure that an organization achieves its objectives. This includes establishing an integrated internal control system, recruiting, and developing competent individuals to operationalize the internal controls, and holding individuals accountable for their internal control responsibilities.

   The USMC has not completed and documented a comprehensive assessment of the operational, reporting and compliance objectives for the USMC, nor has a comprehensive risk assessment been completed to highlight issues which might limit the USMC's ability to achieve its operational, reporting and compliance objectives.

2. **Inadequate Risk Assessment**. There are basic principles which support the completion of a comprehensive risk assessment across an entity's operations, reporting and compliance functions. This process starts with the clear articulation of an entity's operating, reporting and compliance objectives, followed by the identification of risks which would impede the entity's ability to achieve those objectives. When completing a risk assessment, the entity should ensure that the risk of fraud

[1] GAO, Standards for Internal Control, GAO-14-704G, par. OV1.04

is appropriately controlled as well as internal and external changes which would affect the risk profile of the entity.

The USMC has been unable to complete a comprehensive risk assessment, including the establishment of risk profiles and risk tolerances, the identification of risks, risk responses and a process to periodically review and reassess identified risks which may be changed or altered due to internal or external influences.

3. **Inadequate Control Activities**. There are several principles which support control activities. This includes the design and consistent implementation of internal controls, including controls resident within supporting information systems, to achieve the operational, reporting and compliance objectives of an entity. Control activities are broadly defined and can take many different forms. Both GAO and OMB stress the importance of building control activities "into" not "on top of" existing activities completed by the employees of an organization. The most effective and efficient control activities are fully integrated controls that individuals complete as a normal part of their day-to-day activities.

   We noted several areas where the design of control activities was incomplete and/or where the documentation of the control activities was not mapped to the corresponding risks or corresponding objectives. We noted instances during our current information technology testing which evidenced a lack of access controls, segregation of duties, configuration management controls and interface processing associated with key information systems.

4. **Inadequate Information and Communication**. Information and communication are supported through a series of key principles. These include internal and external communication which supports the achievement of an entity's objectives. As noted in the other components of internal control, organizations should identify, and document key data sources and information needed and used to measure progress toward and the achievement of specific objectives. The data and information used should be communicated within the organization and to those employees who will need the data to complete their assigned tasks. The data and information used to achieve an entity's operational, reporting and compliance objectives should also be effectively communicated to external stakeholders.

   Throughout our testing, we noted instances when the USMC had not identified and documented key data points, key reports, and key sources of information which are used to measure and assess the achievement of operational, reporting and compliance objectives.

5. **Inadequate Monitoring**. The final component of an internal control system is supported by a couple of key principles regarding change and the need to continually monitor internal controls for relevance and appropriateness as objectives and risks change in response to internal and external factors. Internal and external factors which might effect an objective or risk include, but are not limited to, changes in laws or regulations, the decommissioning of or the implementation of a new information system, personnel changes, beginning or ending existing programs, the settlement of pending lawsuits, or the negotiation of new service organization agreements.

The USMC does not have a documented process to consistently evaluate the operational effectiveness of designed and implemented controls, or to periodically assess the continued relevance of key internal controls. We also noted that the USMC has note designed and consistently implemented controls to assess the work of service organizations supporting the USMC. Finally, the USMC does not have a consistently implemented set of controls to ensure that control deficiencies are remediated on a timely basis.

***Recommendations***

The internal control standards envisioned within the GAO Green Book and OMB Circular A-123 are comprehensive and span all aspects of an organization, as such EY recommends that the USMC design and consistently implement a program which is appropriately scaled to encompass the entire organization. Aspects of the internal control system should include, but not be limited to:

- A governance plan/charter which outlines the roles/membership, responsibilities, and goals for the development and implementation of a comprehensive internal control system. This plan should be approved by the Commandant, should include regular milestones/briefings to the Commandant, and should provide the authority to effectuate changes needed to implement/comply with the governance plan/charter.
- A project plan which includes key milestone dates for the implementation of a comprehensive, USMC-wide A-123 program as envisioned by OMB and GAO. The project plan should outline the key milestone dates for the initial implementation of the A-123 program, along with recurring milestone dates for continued monitoring of the program.
- A documented set of policies and procedures to hold individuals accountable for their internal control responsibilities.
- A plan which summarizes the overall USMC-wide operational, financial and compliance objectives of the USMC along with a strategic approach for identifying and assessing operational, financial and compliance risks associated with the USMC objectives. This would include the development of a "risk appetite" for operational, financial and compliance related issues along with risk tolerances for performance variances from the risk appetite and a corresponding risk profile.
- A plan with associated milestones dates which identifies and coordinates internal controls across the USMC, leveraging existing controls where possible and implementing new controls to address unmitigated risks. This would include the identification and documentation of the USMC control environment, completion of comprehensive risk assessments, the design and implementation of control activities, informing and communicating key issues to the USMC workforce, and monitoring activities to ensure compliance of key internal controls.
- A plan which includes the completion of all elements of OMB's A-123/GAO's Green Book in practice and in spirit (i.e., not a compliance checklist).
- The development of tools, templates and training for all individuals supporting the USMC A-123 program, and the design and consistent implementation of internal controls to

ensure that the tools and templates are used appropriately, and that documentation associated with the A-123 program is maintained.
- Design, document, and consistently implement policies, procedures, internal controls, and systems to ensure that the control environment, risk assessment, control activities, information and communication, and monitoring are operating effectively.
- A plan which includes the summarization of all activities on a quarterly, semi-annual, and annual basis to support key reporting deadlines.
- The results of the A-123 activities should be briefed to the Commandant on a regular basis for appropriate follow-up/remediation.

## II. Financial Reporting

Financial Reporting encompasses all aspects of operations affecting the USMC's ability to produce reliable financial statements, accompanying notes, and related disclosures. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. According to the GAO's Green Book issued under the authority of FMFIA, management is responsible for implementing and evaluating its internal control system, including internal controls to meet reporting objectives related to the preparation of reports for use by the entity, its stakeholders, or other external parties:

1. **Lack of Effectively Designed or Implemented Controls in the Financial Reporting Process.** As noted below, the USMC has not designed nor consistently implemented policies, internal controls or systems in the following areas:

   ***Estimates***

   Portions of the financial statements are based on the selection of accounting policies and the application of accounting estimates, some of which require management to make significant assumptions. Estimates are based on historical information applied to current conditions that may change in the future and actual results could differ materially from the estimated amounts. The USMC prepares several estimates which are included within the year-end financial statements, which include but are not limited to, Allowance for Doubtful Accounts, Asset Valuations, Accounts Payable, Contingent Liabilities, Environmental Liabilities, and Payroll Accruals. During our current year testing, we noted the USMC has not designed and consistently implemented policies, internal controls or systems which allow the USMC to prepare reasonable estimates used in the preparation of estimates associated with accounts receivable, accounts payable, and contingent liabilities.

   ***Oversight of Material Inputs to Financial Statements***

   The USMC is dependent on the Department of the Navy (DON) for the development and completion of the environmental liability calculation. During the current year, we noted that the USMC has not developed or consistently implemented policies, procedures, internal controls, and systems to assess the reasonableness, accuracy and completeness of this liability.

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### *Journal Vouchers/Other Adjustments*

Journal vouchers are typically manual entries made to the system of record to correct a prior journal entry, to complete specific post-closing entries, or to process other non-standard journal entries. Due in part to the manual nature of journal vouchers, and because they are entries which "by-pass" normal system controls, journal vouchers are inherently risky and therefore should be carefully prepared, reviewed and controlled to ensure that their use does not introduce errors into the system of record. During our current year testing, we noted the USMC has not designed or consistently implemented policies, internal controls or systems which provide for the complete and accurate preparation, review, and entry of journal vouchers. Specifically, we noted the following:

- EY identified three JVs where the supporting documentation for each JV was initially prepared by and ultimately approved by the same USMC accountant.
- The USMC incorrectly calculated entitlement payments for 2 out of the 36 samples when performing a manual calculation for prior period adjustments.

### *Reconciliations*

Reconciliations are a key control which enables an organization to ensure the completeness and accuracy of similar information stored within two different systems. Reconciliations are typically considered to be a key internal control, must be completed and reviewed by two separate individuals, and should be completed on a timely basis. Failure to complete a reconciliation, to complete it incorrectly, or to complete it in a timely fashion significantly impairs the effectiveness of the reconciliation control. During our current year testing, we noted the USMC has not designed or consistently implemented policies, internal controls or systems which provide for the timely preparation and review of key reconciliations. Specifically, we noted the following:

- USMC was only able to reconcile the trading partner data for 14 out of 67 trading partners, in FY21 Q1. As a result, the DDRS-AFS trading partner adjustment JV posted was not sufficiently supported by underlying transaction data.
- During FY21, USMC was unable to explain beginning balance variances between the SABRS and DDRS for six separate appropriations.

### *Insufficient Transaction Support/Management Reports*

FMFIA along with guidance issued by GAO and OMB require Federal entities, inclusive of the USMC, to design and consistently implement internal controls to create and maintain documentation to support the individual transactions summarized in the corresponding systems of record and any associated financial reports. During our current year testing, we noted the USMC has not designed or consistently implemented policies, internal controls or systems which provide for the USMC to create and or maintain adequate documentation to support individual transactions or to prepare standard management reports for specific transaction cycles, including but not limited to, reimbursable work orders, non-routine payroll transactions, accounts payable reports and accounts receivable reports.

***Timely Review of Information***

The USMC has several internal controls to ensure the accuracy and completeness of information which is used to prepare internal and external financial management reports. A key element of completing these reviews is the requirement to complete the reviews in a timely manner. During our current year testing, we noted the following instances whereby the USMC failed to design and consistently implement policies, internal controls or systems to ensure the complete and timely review of information used to prepare financial reports. Specifically, we noted the following:

- USMC lacks controls to effectively perform abnormal balance reviews. Quarterly, Defense Finance and Accounting Service (DFAS) prepares the abnormal balance report workbook and USMC performs the review after DDRS-AFS is closed for the period, effectively preventing the timely correction of errors.
- USMC has not implemented controls for timely entry of accounting transactions. During opening balance testing for reimbursable work orders, EY identified transactions, including recording of funding and expenses incurred, that were not posted into the system of record in a timely manner.

2. **Lack of Oversight of Financial Reporting Service Provider.** The USMC lacks appropriate oversight of DFAS related to the execution of financial reporting controls. Specifically, we noted the following control weaknesses:

***Journal Vouchers***

- In FY21 Q1, EY identified 1,619 DDRS-B JVs under the existing USMC review threshold with an absolute debit and credit value in excess of $12 billion that were not reviewed or approved by the USMC.

***Trading Partner Eliminations***

- During interim dual-purpose testing, EY identified JVs associated with trading partner accruals which were not adequately supported and did not comply with existing TFM guidance for recording trading partner transactions. The total amount of trading partner eliminations recorded in FY21 Q4 was $3.1 billion.

3. **Lack of Controls over Compliance with Accounting Standards and Regulatory Guidance.** The USMC lacks adequate financial reporting controls to ensure compliance with applicable accounting standards and regulatory reporting requirements as follows:

***GAAP Policies and Procedures***

Generally Accepted Accounting Practices (GAAP) are comprised of various authoritative guidance issued the Federal Accounting Standards Advisory Board (FASAB). The USMC, along with other Federal entities, are required to follow GAAP when preparing their financial reports, to ensure that the results of financial transactions are prepared and reported following a consistent methodology. During our current year testing, we noted the USMC has not designed and consistently implemented policies, internal controls or systems which allow the USMC to prepare financial reports which comply with GAAP. Specifically, we noted:

- USMC does not follow GAAP to record changes in property valuations in DDRS. During interim dual-purpose testing, EY identified that the USMC had DDRS JVs associated with the quarterly property recording process that were not posted in accordance with GAAP. JVs were recorded to Changes in Accounting Principle, rather than Corrections of Errors for issues such as correcting asset balances caused by valuation changes, found inventory, disposed inventory, and interest type changes.
- As disclosed in Note 1 of the financial statements, the USMC lacks policies, procedures, and internal controls to ensure compliance with multiple standards issued by FASAB.

***Authoritative Guidance.***

In addition to following GAAP, the USMC is also required to following guidance issued by the Office of Management and Budget (OMB) and The United States Department of the Treasury (Treasury). This guidance includes instructions for how specific financial transactions should be prepaid and entered to the corresponding systems of records, as well as guidance regarding the presentation and disclosure of information within the financial reports prepared by the USMC. During our current year testing, we noted the USMC has not designed and consistently implemented policies, internal controls or systems which allow the USMC to prepare financial reports which comply with OMB and Treasury. Specifically, we noted:

- USMC posts SABRS JVs which are not TFM compliant resulting in both overstatements and understatements of obligation balances.
- USMC accepted orders with a Public/Non-federal entity (i.e., Public Private Venture (PPV), Marine Corps Communities Services (MCCS), etc.) in which an advance payment was required prior to work being performed, but no advance payment was received. USMC did not obtain the required Office of the Under Secretary of Defense - Comptroller approval prior to accepting the order.

***Recommendations***

**1. Lack of Effectively Designed or Implemented Controls in the Financial Reporting Process.**

- Design and consistently implement policies, procedures, internal controls, and systems to ensure that the control activities and monitoring of control activities are fully documented and operating effectively.
- Ensure that all transactions reported and disclosed within the financial statements are supported, that the support for each transaction is properly maintained, and readily available for review.
- Control activities and monitoring should be completed in timely manner and by individuals.

2. **Lack of Oversight of Financial Reporting Service Provider**
   - Design and consistently implement policies, procedures, internal controls, and systems to ensure that activities are accurately performed by service providers, and that the information processed by service providers on behalf of the USMC conforms to the applicable authoritative guidance.
3. **Lack of Controls over Compliance with Accounting Standards and Regulatory Guidance.**
   - Design and consistently implement policies, procedures, internal controls, and systems to ensure that financial transactions are reported and disclosed in accordance with GAAP and other authoritative guidance issued by the Office of Management and Budget (OMB) and The Department of the Treasury (Treasury).
   - To the extent that the USMC reports or discloses information which is not consistent with GAAP or other authoritative guidance; design and consistently implement policies, procedures, and internal controls to research and document the rationale for the departure from GAAP and other authoritative guidance. These departures should be periodically re-assessed to ensure the appropriate continuation of the departure.

### III. Fund Balance with Treasury

FBwT represents the aggregate amount of funds in the USMC's accounts with the U.S. Treasury. Reconciliation of agencies' FBwT general ledger accounts to the balances held at Treasury is a key internal control process which ensures the accuracy of the agencies', as well as the government-wide receipt and disbursement data. Lack of adequate controls over the FBwT transactions can lead to misstatements to the financial statements as well as reports used by management to control the use of its funds. Inadequate procedures, including oversight, over the FBwT process have led to the following internal control deficiencies:

1. **Incomplete internal controls to effectively analyze, track and report USMC balances associated with the Navy/USMC Shared Appropriations and USMC direct appropriations.** The USMC and the Navy share four separate appropriations, and DFAS is responsible for most of the controls to ensure that transactions associated with the shared appropriations are accurately reported and disclosed by the USMC. During the current year, we noted gaps within the internal controls used by the USMC to effectively reconcile both the shared appropriation information and the direct appropriation information. We also noted gaps regarding the completeness and accuracy of documentation associated with shared and direct appropriation JVs, in some instance the documentation was incomplete, in other instances the documentation was provided to the USMC after the JVs had been posted by DFAS.

2. **Incomplete internal controls to effectively ensure that obligations and liquidations are adequately supported, expenses reported by the USMC are correctly matched to unliquidated obligations and payments are accurately matched to unliquidated obligations.** During the current year testing, we completed Third Party confirmations with a small population of USMC vendors to confirm the total obligations, total unliquidated obligations, and total disbursements (expenses) associated with 43 USMC contracts. We noted 11 (26%) instances in which the total obligated amounts reported by the USMC differed from the obligation amounts reported by the vendors. We noted 9 (21%) instances in which the liquidation amounts differed from the payments received by the vendors. We noted 9 (21%) instances in which the liquidation amounts reported by the USMC differed from the corresponding expense amounts reported by the USMC for the same contracts. Finally, we noted instances in which payments are being matched to obligations following outdated guidance which was superseded in 2019.

3. **Incomplete or insufficient documentation obtained and maintained for rejected interfund transactions.** Neither DFAS or the USMC obtains and maintains adequate documentation to support the resolution of interfund transactions which are initially rejected by SABRS or MCVISTA system edits.

***Recommendations***

- Design and consistently implement policies, procedures, internal controls, and systems needed to ensure that FBwT transactions are accurately and completely reported and disclosed within financial reports prepared and used by the USMC.
- Design and consistently implement policies, procedures, internal controls, and systems, to ensure that adequate and comprehensive supporting documentation for FBwT transactions is developed and maintained and ensure that individual transactions are processed following established TFM guidance.

## IV. General Property, Plant and Equipment

General property, plant and equipment (GPP&E) is comprised of capitalized assets, with a useful life of more than two years, which includes buildings and structures, internal use software, general equipment and construction in progress. The USMC further defines general equipment into military equipment (i.e., weapons systems, components of weapons systems, and support equipment) and garrison property (i.e., office equipment and material handling equipment). During the current year, the USMC completed several remediation tasks to validate the existence of buildings and structures and general equipment, and the completeness of information stored within the USMC's systems to track and report GPP&E information. However, we noted several internal control weaknesses associated with GPP&E which could result in a material misstatement of the USMC's financial statements.

This includes:

1. **Incomplete policies, procedures, internal controls and systems to comply with GAAP**. The USMC's current internal controls and systems have impaired the USMC's ability to report original acquisition values for GPP&E in accordance with FASAB Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment* (SSFAS No. 6). Due in part to these internal control weaknesses, the USMC is currently working to design and implement internal controls and systems needed to estimate and report the value of GPP&E balances in accordance with FASAB Statement of Federal Financial Accounting Standards No. 50 *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35* (SSFAS No. 50). However, the USMC is currently unable to make the required Unreserved Assertion for the GPP&E assets as required by SFFAS 50, or to demonstrate that the USMC will be able to comply with SSFAS 6, after making the Unreserved Assertion on GPP&E.

2. **Incomplete or inconsistently implemented internal controls to ensure the accuracy and completeness of buildings and structures, linear assets, buildings and structures "one-to-many" assets, military equipment, military equipment parent/child assets.** During our current testing, we noted several instances in which the internal controls to ensure that GPP&E is accurately and completely reported within the corresponding systems of record were either not designed appropriately or were not consistently implemented. The errors noted were corrected by the USMC during the audit period, but the existence of these errors evidences on-going weaknesses in the current controls.

   - For GPP&E we noted 711 instances in which items found on base were not reported within the corresponding system of record, and 189 instances in which items reported within the system of record were not found on base or the USMC was unable to provide sufficient evidence to support the existence of the asset.
   - For linear assets, buildings and structures "one-to-many" assets, and military equipment parent/child assets we noted that the USMC had not designed or consistently implemented internal controls to accurately report these classes of assets across the USMC enterprise.
   - For real property assets, we noted that only 399 of 1,314 real asset modifications completed by the USMC through quarter 2 of fiscal year 2021 were sent to the corresponding installation Real Property Office for verification of the completeness and accuracy of supporting documentation.

3. **Inconsistently implemented controls to ensure that GPP&E assets are periodically evaluated for valuation and impairment purposes.** Current USMC policy requires the evaluation of real property (non-historic) assets every five years and real property (historic) assets every three years.

In the current year, we noted that asset evaluations had not been completed for 1,691 capitalized non-historic assets and 73 capitalized historic assets.

4. **Incomplete design and consistent implementation of controls to verify the completeness and reasonableness of cost information included within the Transfer and Acceptance of DoD Property Standard Form DD1354 for real property.** The USMC is unable to support the original acquisition values of GPP&E and therefore is developing and implementing internal controls to estimate original acquisition values for GPP&E using information within the corresponding accountable property system of record (APSR). During our current year testing we noted that the USMC has not designed or consistently implemented internal controls to ensure that all information reported on the DD1354s for buildings and structures is accurately and completely reported in the corresponding APSR.

5. **Incomplete policies to ensure accurate and complete reconciliations between the military equipment APSR and the general ledger and key data reported for military equipment within the corresponding ASPRs.** During the current year testing, we noted that the USMC was unable to provide sufficient evidence to support a complete reconciliation between the military equipment asset records and the APSR. In addition, we noted that the USMC does not appropriately update the asset records for activity which occurs 15 days prior to the period end resulting in assets being recorded in the incorrect period. Further, we noted that the USMC has not designed or consistently implemented internal controls to ensure that all key data elements used in the valuation of ME are accurately and completely reported within the corresponding APSR.

6. **Incomplete design and consistent implementation of controls to ensure accurate and complete reporting of general equipment construction in progress (CIP).** During the current year testing, we noted that the USMC was unable to provide sufficient evidence to support a complete and accurate general equipment CIP balance.

7. **Incomplete Business Process Narratives (BPNs).** During our current year testing, we noted that the USMC has not completed and finalized complete end-to-end (i.e., initiation, processing and reporting) narrative documentation for the GPP&E transaction cycle. The USMC has completed some of this documentation, but the documentation did not consistently include: the scope or definition of the transaction cycle, key internal control objectives, key risks associated with each control objective, management assertions associated with key internal controls, key internal controls, key supporting input and output documentation, and the key systems used to support the transaction cycle. The documentation provided also failed to consistently identify the individual/role responsible for the completion of key control activities and the individual/role responsible for the completion of monitoring activities.

***Recommendations:***
On a combined basis, GPP&E is the most significant grouping of assets reported by the USMC. Unlike certain types of assets, such as financial investments, the GPP&E assets are integrated into the day-to-day operations of the USMC. Therefore, designing and implementing the policies, procedures, internal controls and systems needed to accurately present and disclose the associated values in accordance with GAAP, will be challenging and require a coordinated effort across the USMC enterprise. As such, EY suggests that the appropriate levels of the USMC leadership team should be responsible for implementing the following recommendations:

Develop and consistently implement the appropriate policies, procedures, internal controls, and systems to:

- Comply with the requirements of SSFAS No. 50, to support an Unreserved Assertion on the GPP&E assets, while simultaneously developing and consistently implementing the policies, procedures, internal controls and systems to comply with the requirements of SSFAS No. 6, post-Unreserved Assertion on GPP&E assets.
- Track and report GPP&E additions, modifications, and deletions, of GPP&E assets in a timely manner and in the proper accounting period.
- Accurately and completely capture information and data points used to track, value, and report GPP&E assets.
- Complete GPP&E reconciliations in a timely manner and that outstanding items identified within any GPP&E reconciliations are resolved in a timely manner.
- Consistently implement policies, procedures, and internal controls to complete the periodic GPP&E asset evaluations.
- Ensure that business process narratives are complete, approved and periodically updated to reflect the end-to-end internal controls associated with the GPP&E transaction cycle. The BPNs should include, but not be limited to, the scope or definition of the transaction cycle, key internal control objectives, key risks associated with each control objective, the management assertions associated with each transaction cycle, key internal controls, key supporting input and output documentation and the key systems used to support each transaction cycle. The documentation should also identify the individual/role responsible for the completion of key control activities and the individual/role responsible for the completion of monitoring activities.

## V. Inventory and Related Property: Operating Materials & Supplies

Inventory and related property, also known as Operating Materials and Supplies (OM&S) represents items which are held for normal use in USMC operations. The USMC classifies OM&S as ammunition and non-ammunition. The USMC defines ammunition as any device charged with explosives, propellants or pyrotechnics used in connection with military operations or structural destruction. The USMC defines non-ammunition includes spare and repair parts, fuel, construction materials, clothing and textiles, medical and dental supplies and other items used to support the day-to-day operations of the USMC. A significant amount of ammunition is held on behalf of the USMC by the Army and the Navy, although the USMC reports and discloses this ammunition with the financial statements of the USMC. During our current year testing, we noted several internal control weaknesses associated with OM&S which could result in a material misstatement of the USMC's financial statements. This includes:

1. **Incomplete policies, procedures, internal controls, and systems to comply with GAAP**. The USMC's current business processes and systems have impaired the USMC's ability to accurately report OM&S balances with FASAB Statement of Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property* (SSFAS No. 3). Due in part to these internal control weaknesses, the USMC is currently working to design and implement internal controls and systems needed to estimate and report the value of GPP&E balances in accordance with FASAB Statement of Federal Financial Accounting Standards No. 48 *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* (SSFAS No. 48). However, the USMC is currently unable to make the required Unreserved Assertion for the OM&S assets as required by SFFAS No. 48, or to demonstrate that the USMC will be able to comply with SSFAS No. 3, after making the Unreserved Assertion on OM&S.

2. **Incomplete policies, procedures, internal controls, and systems to accurately report and disclose ammunition balances held by the Army and Navy.** The USMC has identified Navy and Army internal controls to support the existence assertion associated with Navy and Army held ammunition. However, the USMC has not obtained any documentation or evidence to support the appropriate design or operational effectiveness of Navy internal controls used to track and secure USMC ammunition held by the Navy. In addition, the USMC has not designed or implemented any compensating controls to address this internal control gap with Navy held ammunition. The Army provided a Statement on Standards for Attestation Engagements (SSAE) No. 18, System and Organization Controls (SOC) Type 1 report regarding its internal controls to track and secure USMC ammunition. However, this report contained an adverse opinion, as such none of the Army's internal controls may be utilized to report and disclose ammunition balances held by the Army on behalf of the USMC. The USMC has not designed or implemented any compensating controls to address this internal control gap with Army held ammunition. The USMC was unable to provide evidence that it had completed a critical review of the Army SOC report or taken the appropriate corrective actions to compensate for the adverse opinion included in the Army SOC report.

3. **Incomplete policies, procedures, and internal controls to ensure accurate and complete reconciliations between the OM&S APSR and the general ledger.** During the current year testing, we noted the USMC did not effectively design and implement controls to complete year-end OM&S reconciliations in a timely manner and to effectively correct potential variances noted in the OM&S reconciliations. Specifically, the USMC does not properly account for OM&S Activity which occurs just prior to and just after the end of the accounting period. OM&S activity processed approximately 15 days prior to quarter and/or year-end is not reported in the Accounting Property System of Record in the proper period. Additionally, the year-end reconciliations are not completed until after the submission of the year-end financial statements, which inhibits the USMC's ability to accurately report and disclose OM&S balances.

4. **Incomplete policies, procedures, internal controls, and systems to accurately report and disclose internal transfers of OM&S.** During the current year testing, we noted that the USMC does not have the appropriate internal controls in place to track and report internal transfers of USMC owned OM&S between storage locations. The USMC has designed and implemented a workaround set of procedures to track these transfers, but these procedures result in the creation of specific accounting transactions which result in the inappropriate posting of gain and loss transactions. As these are non-accounting events, the USMC should not be posing JVs associated with these transfers.

5. **Incomplete Business Process Narratives (BPNs).** During our current year testing, we noted that the USMC has not completed and finalized complete end-to-end (i.e., initiation, processing and reporting) narrative documentation for the OM&S transaction cycle. The USMC has completed some of this documentation, but the documentation did not consistently include: the scope or definition of the transaction cycle, key internal control objectives, key risks associated with each control objective, management assertions associated with key internal controls, key internal controls, key supporting input and output documentation, and the key systems used to support the transaction cycle. The documentation provided also failed to consistently identify the individual/role responsible for the completion of key control activities and the individual/role responsible for the completion of monitoring activities.

***Recommendations***

OM&S is a significant grouping of assets reported by the USMC. Unlike certain types of assets, such as financial investments, the OM&S assets are integrated into the day-to-day operations of the USMC. Therefore, designing and implementing the policies, procedures, internal controls and systems needed to accurately present and disclose the associated values in accordance with GAAP, will be challenging and require a coordinated effort across the USMC enterprise. As such, EY suggests that the appropriate levels of the USMC leadership team should be responsible for implementing the following recommendations:

Develop and consistently implement the appropriate policies, procedures, internal controls, and systems to:

- Comply with the requirements of SSFAS No. 48, to support an Unreserved Assertion on the OM&S assets, while simultaneously developing and consistently implementing the policies, procedures, internal controls and systems to comply with the requirements of SSFAS No. 3, post-Unreserved Assertion on GPP&E assets.
- To accurately and completely track and report OM&S inventory balances held by the Navy and the Army. This includes, but would not be limited to, developing and implementing internal controls to review and assess the results of any SOC reports received from service providers, and taking the appropriate action to compensate for any internal control weaknesses reported in a SOC report.
- To accurately account for internal transfers of OM&S between storage locations. The changes designed and implemented by the USMC should ensure that transfers are accurately and completely captured within the appropriate systems, that the transfers include "in-transit" movements of OM&S items between locations.
- Design and consistently implement policies, procedures, internal controls and systems to complete period-end OM&S reconciliations in a timely manner (i.e., before the preparation of any internal or external financial reports) and to ensure that OM&S activity is reported within the appropriate accounting period.
- Ensure that business process narratives are complete, approved and periodically updated to reflect the end-to-end internal controls associated with the OM&S transaction cycle. The BPNs should include, but not be limited to, the scope or definition of the transaction cycle, key internal control objectives, key risks associated with each control objective, the management assertions associated with each transaction cycle, key internal controls, key supporting input and output documentation and the key systems used to support each transaction cycle. The documentation should also identify the individual/role responsible for the completion of key control activities and the individual/role responsible for the completion of monitoring activities.

**Financial Information Systems**

USMC needs to continue focusing on the implementation of a robust internal control environment and information security program, that is designed, operating effectively, and producing the intended results to mitigate key financial audit risks. Consequently, an integrated, prioritized, risk-driven effort is still necessary to remediate deficiencies in the areas of Access Controls, SoD, Configuration Management, and Interface Processing.

Our assessment of the IT controls and the computing environment focused on a subset of financially significant applications that included general ledger systems, feeder systems and operational systems. Specifically, open deficiencies are primarily design level deficiencies at the application layer. As the

USMC's Management Internal Control Program (MICP) matures, we will assess the operating effectiveness and additional layers such as operating system and network.

The following table outlines the number of deficiencies identified across the 8 systems in scope for USMC:

| | FY21 USMC Financially Significant Systems – IT Internal Controls Deficiencies | | | | |
|---|---|---|---|---|---|
| **System Type** | **Security Management** | **Access Controls/ SoD** | **Configuration Management** | **Interface Processing** | **Totals** |
| General Ledger Systems | 1 | 9 | 5 | 7 | 22 |
| Feeder and Operational Systems | 13 | 113 | 51 | 38 | 215 |
| **Totals** | **14** | **122** | **56** | **45** | **237** |

*Data obtained from Navy/USMC IT Observation Tracker

A subset of the deficiencies identified were high-risk, which collectively constitute a material weakness in the design and operation of information systems controls. We reviewed each finding individually as well as in aggregate. Based on our review and analysis of the findings in aggregate, we have identified three distinct material weaknesses related to information system controls.

We have outlined the three IT material weaknesses below:

- Access Controls/Segregation of Duties
- Configuration Management
- Interface Processing

## VI. Financial Information Systems - Access Controls/Segregation of Duties

Access Controls include those controls related to protecting application boundaries, user identification and authentication, authorization, protecting financially significant transactions and system resources, and the monitoring of security violations. When properly implemented, access controls can validate that critical systems assets are safeguarded and that logical access to sensitive computer programs and data is granted to users only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and/or disclosed.

The identified access control weaknesses that represent a significant risk to the USMC financial management information systems environment include the following:

- Complete and accurate system generated populations of users were not consistently available, or evidence to support the population of users was not provided, to include level of access granted (i.e. privileges).

- Identification of financially significant transactions and resources has not been performed and/or lacks financial integration and approval.
- Access provisioning to include initial access provisioning, modification, and removal of access were not performed in accordance with defined requirements, timelines, and with sufficient detail to confirm access granted was commensurate with access approved and required for the user's business responsibilities.
- Access recertification/periodic user access reviews were not performed to consistently evaluate both the need for access and the level of access provisioned.
- Monitoring sensitive user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- Audit logging evidence was not protected against unauthorized access and modification, as well as not being retained for the audit period.
- Identification and monitoring of security violations, to include required follow-on actions were not consistently performed.

An effective control environment guards against a particular user without documented authorization and acceptance of the associated risks from being provisioned to incompatible functions within a system. SoD controls provide policies, procedures, and an organizational structure to prevent individual users from being provisioned a combination of roles or permissions that provide the capability to perform incompatible activities. As a result, an effective control environment reduces the risk of users performing inappropriate or unauthorized activities using their incompatible access permissions.

The identified SoD weaknesses that represent a significant risk to the USMC financial management information systems environment include the following:

- Cross-application SoD analysis has not been performed across key financial systems to determine the significance and pervasiveness of these types of SoD conflicts. Additionally, cross-application SoD are not considered when provisioning user access.
- SoD conflict matrix, or equivalent documentation identifying access roles and permissions requiring separation, was not sufficiently documented, inclusive of all functional roles, and/or not mapped effectively to the system access associated with the functional roles.
- Provisioning conflicting access could not be prevented, and for known conflicts where SoD-related concerns were identified, there was a lack of documentation for business rationale and subsequent monitoring of users with known SoD conflict activities.
- System administrators have the ability to complete an entire business functional process by inputting, processing, and approving transactions.

***Recommendations***

Consider the following corrective actions related to the conditions described above:

- Systematically generate a complete and accurate population of users with access to financially significant systems.
- Periodically review the on-going need for users with elevated access privileges.
- Monitor the activity of users with elevated access privileges.
- Identify and document the completeness and accuracy of financially significant transactions and resources. Additionally, obtain approval from the appropriate level of IT and financial management to validate the listing of financially significant transactions and resources.
- Establish and consistently follow processes and controls related to user account management and SoD, including the entire lifecycle from access provisioning to recertification, modification of access, inactivity restrictions, and termination procedures.
- Segregate conflicting roles. In those limited instances where conflicting roles are required or unavoidable, document and approve the business rationale for the conflict and monitor the activity of users with conflicting roles.
- Evaluate cross-application SoD to identify potential conflicts for users accessing multiple systems.
- Conduct appropriate analysis to confirm functional user access is aligned to the appropriate logical permissions within the systems and confirm SoD is enforced.
- Define required security violation monitoring procedures, including the frequency for which security violations should be escalated, reviewed and approved.

## VII. Financial Information Systems - Configuration Management

Configuration Management involves the identification and management of an information system at a given point-in-time and systematically controls changes to that configuration throughout the system development lifecycle. By implementing configuration management controls, USMC can verify only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified configuration management-related weaknesses that represent a significant risk to the USMC financial management information systems environment include the following:

- Complete and accurate system generated populations of changes made to the production environments are not captured nor available to support internal controls and monitoring. This includes code changes, table structure changes, direct data changes, and configurable settings within the application.
- Logging and monitoring controls have not been implemented to identify unintentional or unauthorized changes made to the application and database.
- Access to production and development environment are not segregated. Additionally, access to source code is not properly controlled.
- Changes are not consistently reviewed, approved, and documented.
- Lack of management review or monitoring of third-party service providers who perform configuration management functions, to validate compliance with the established configuration management process.

***Recommendations***

Consider the following corrective actions related to the conditions described above:

- Identify complete and accurate populations of configuration changes.
- Only migrate authorized and approved changes into the production environment
- Segregate access between the development and production environments.
- Restrict access to source code. Document and approve the business rationale for those users requiring access to source code to perform their roles and responsibilities and monitor the activities of those accessing source code.
- Monitor third party service providers responsible for configuration management activities over USMC's applications.
- Validate and approve changes to applications and databases.

## VIII. Financial Information Systems - Interface Processing

Interface Processing controls consist of those related to the timely, accurate, and complete processing of information between applications on an ongoing basis. Weaknesses in interface controls increase the risk related to data discrepancies, inability to determine data transfer completeness, timeliness, and accuracy of data transmitted that ultimately impact the reliability of data transfer between financial management information systems.

The identified interface control weaknesses that represent a significant risk to the USMC financial management information systems environment include the following:

- A complete and accurate population of interfaces processing USMC transactions has not been validated.
- A complete and accurate population of financially relevant edits and validation checks has not been validated.
- Reconciliations are not being performed between source and target systems to validate completeness and accuracy of financial data processing.
- Logs of interface processing activities are not retained to support subsequent auditing and monitoring activities. Additionally, error reporting for failed interface processing activities has not been implemented in some systems.
- Remediation of identified errors in interface processing are not completed in accordance with defined requirements, timelines and with sufficient detail to confirm remediation.
- Interface files are not consistently protected from unauthorized access and modification prior to processing through the use of secure transmission mechanisms.

***Recommendations***

Consider the following corrective actions related to the conditions described above:

- Identify and document a complete and accurate listing of system interfaces.
- Validate the completeness and accuracy of interface file processing, inclusive of authorized access controls.
- Identify and document a complete and accurate listing of edit checks and validations, to verify that interface files are appropriately edited and validated.
- Validate that information received from a source application is complete, accurate and consistently received.
- Log interface activity and monitor these logs to allow for timely remediation of errors associated with the transmission of data used in financial reporting.
- Protect data files transmitted via interfaces from inadvertent or intentional access or modification prior to data processing.

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

# Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Commandant of the United States Marine Corps and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements,* the financial statements of the General Fund of the United States Marine Corps (USMC), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statements of net cost, changes in net position and the combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because the USMC was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

## Compliance and Other Matters

In connection with our engagement to audit the financial statements of the USMC, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA) (P.L. 104-208). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 21-04, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report on Internal Control over Financial Reporting dated November 8, 2021 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance and our recommendations to the specific issues presented.

## FFMIA

Under FFMIA, we are required to report whether the USMC's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the USMC's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Federal financial management system requirements

As referenced in the Fiscal Year (FY) 2021 USMC Statement of Assurance, the USMC identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of FFMIA or OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123) Appendix D.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with access controls, segregation of duties, configuration management, and interface processing. These financial system deficiencies prevent the USMC from being compliant with federal financial management system requirements and inhibit the USMC's ability to prepare complete and accurate financial reporting.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2021 USMC Statement of Assurance and Note 1 to the financial statements, the USMC identified that the design of financial and non-financial systems does not allow the USMC to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, and those findings are included in our Report on Internal Control over Financial Reporting.

(c) Noncompliance with USSGL posting logic at the transaction level

As referenced in the FY 2021 USMC Statement of Assurance, the USMC identified that the design of financial systems does not allow the USMC to comply with USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, and those findings are included in our Report on Internal Control over Financial Reporting.

**FMFIA**

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the entity's system of internal control, and prepare related reports. The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (commonly referred to as the GAO Green Book), issued under the

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authority of FMFIA, establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. To determine if an entity's internal control system is effective, the Green Book requires management to assess the design, implementation, and operating effectiveness of the five components of the entity's internal control system.

The USMC has not yet implemented a formal internal control program that would allow it to substantially comply with FMFIA and the related GAO Green Book requirements, leading to inadequate Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring processes.

**Management's Response to Findings**

USMC's response to the findings identified in our engagement and relevant comments from the USMC's management responsible for addressing the noncompliance are provided in their accompanying letter dated November 8, 2021. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 8, 2021

DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

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Mr. John F. Short, Partner
Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

Dear Mr. Short:

SUBJECT: MANAGEMENT COMMENTS TO THE INDEPENDENT AUDITOR'S REPORT ON THE UNITED STATES MARINE CORPS FULL FINANCIAL STATEMENT AUDIT FOR FISCAL YEAR 2021 (CONTRACT NO. GS-00F-290CA/HQ0423-21F-0002)

The Marine Corps is in agreement with the content of Ernst & Young's Independent Auditor's Report on the Marine Corps' Financial Statements for Fiscal Year 2021 (FY21). The material weaknesses identified in the report are consistent with our internal assessment of deficiencies which require our attention to remediate.

We appreciate the collaboration between your team and the Marine Corps in FY21, Ernst & Young's first year auditing our organization. Outside perspective on areas where the Marine Corps can improve is where the value of audit is most essential.

I am pleased with the progress that the Marine Corps has demonstrated during the past five years under audit. We look forward to continuing our progress and our goal of achieving an unmodified audit opinion in the near future.

Sincerely,

Christopher J. Mahoney
Lieutenant General
Fiscal Director
of the Marine Corps

Copy to:
Assistant Secretary of the Navy (FM&C)

# PRINCIPAL FINANCIAL STATEMENTS

The United States Marine Corps' (hereafter referred to as the USMC or the Marine Corps) financial statements have been prepared to report the financial position, results of operations, net position, and budgetary resources pursuant to the requirements of the *Chief Financial Officers (CFO) Act of 1990 (Public Law (P.L.) 101-576)*, *Government Management Reform Act (GMRA) of 1994 (P.L. 103-356)*, and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. The statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as outlined by the Federal Accounting Standards Advisory Board (FASAB), unless otherwise noted.

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required by OMB Circular No. A-136. This change will allow readers of this report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet and thereby support the preparation and audit of the *Financial Report of the United States Government*. The presentation of the fiscal year (FY) 2020 Balance Sheet was modified to be consistent with the FY2021 presentation.

**United States Marine Corps**

# CONSOLIDATED BALANCE SHEETS

**As of September 30, 2021 and 2020**

| *(Amounts in thousands)* | | Unaudited **2021** | | Unaudited **2020** |
|---|---|---|---|---|
| **ASSETS (NOTE 2)** | | | | |
| Intragovernmental: | | | | |
| Fund Balance with Treasury (Note 3) | $ | 11,998,575 | $ | 12,580,059 |
| Accounts Receivable, Net (Note 5) | | 27,588 | | 18,742 |
| Advances and Prepayments (Note 9) | | 57,543 | | 24,873 |
| Total Intragovernmental Assets | | 12,083,706 | | 12,623,674 |
| Other Than Intragovernmental: | | | | |
| Cash and Other Monetary Assets (Note 4) | | 4,208 | | 5,063 |
| Accounts Receivable, Net (Note 5) | | 18,175 | | 12,465 |
| Inventory and Related Property, Net (Note 6) | | 7,799,075 | | 8,376,671 |
| General Property, Plant, and Equipment, Net (Note 7) | | 22,704,631 | | 23,009,277 |
| Advances and Prepayments (Note 9) | | 7,699 | | 8,518 |
| Other Assets (Note 9) | | 34,057 | | 227,641 |
| Total Other Than Intragovernmental Assets | | 30,567,845 | | 31,639,635 |
| **TOTAL ASSETS** | $ | 42,651,551 | $ | 44,263,309 |
| Stewardship Property, Plant, and Equipment (Note 8) | | | | |
| **LIABILITIES (NOTE 10)** | | | | |
| Intragovernmental: | | | | |
| Accounts Payable | $ | 388,611 | $ | 178,875 |
| Other Liabilities (Note 13 and 14) | | 63,679 | | 78,392 |
| Total Intragovernmental Liabilities | | 452,290 | | 257,267 |
| Other than intragovernmental: | | | | |
| Accounts Payable | | 759,969 | | 915,625 |
| Federal Employee Benefits Payable (Note 11) | | 1,161,690 | | 1,131,028 |
| Environmental and Disposal Liabilities (Note 12) | | 1,308,730 | | 189,565 |
| Other Liabilities (Note 13 and 14) | | 798,127 | | 730,630 |
| Total Other than Intragovernmental Liabilities | | 4,028,516 | | 2,966,848 |
| **TOTAL LIABILITIES** | $ | 4,480,806 | $ | 3,224,115 |
| Contingencies (Note 14) | | | | |
| **NET POSITION** | | | | |
| Unexpended Appropriations - Funds from other than those from Dedicated Collections | $ | 10,055,089 | $ | 10,675,458 |
| Cumulative Results of Operations - Funds from Dedicated Collections (Note 15) | | 1,410 | | 1,369 |
| Cumulative Results of Operations - Funds from other than those from Dedicated Collections | | 28,114,246 | | 30,362,367 |
| Total Cumulative Results of Operations | | 28,115,656 | | 30,363,736 |
| **TOTAL NET POSITION** | | 38,170,745 | | 41,039,194 |
| **TOTAL LIABILITIES AND NET POSITION** | $ | 42,651,551 | $ | 44,263,309 |

*The accompanying notes are an integral part of these statements.*

**United States Marine Corps**

# CONSOLIDATED STATEMENTS OF NET COST

**For the Years Ended September 30, 2021 and 2020**

| *(Amounts in thousands)* | | Unaudited **2021** | | Unaudited **2020** |
|---|---|---|---|---|
| **PROGRAM COSTS** | | | | |
| Gross Costs | $ | 31,176,828 | $ | 28,308,083 |
| (Less: Earned Revenue) | | (299,494) | | (339,724) |
| **NET COST OF OPERATIONS** | $ | 30,877,334 | $ | 27,968,359 |

*The accompanying notes are an integral part of these statements.*

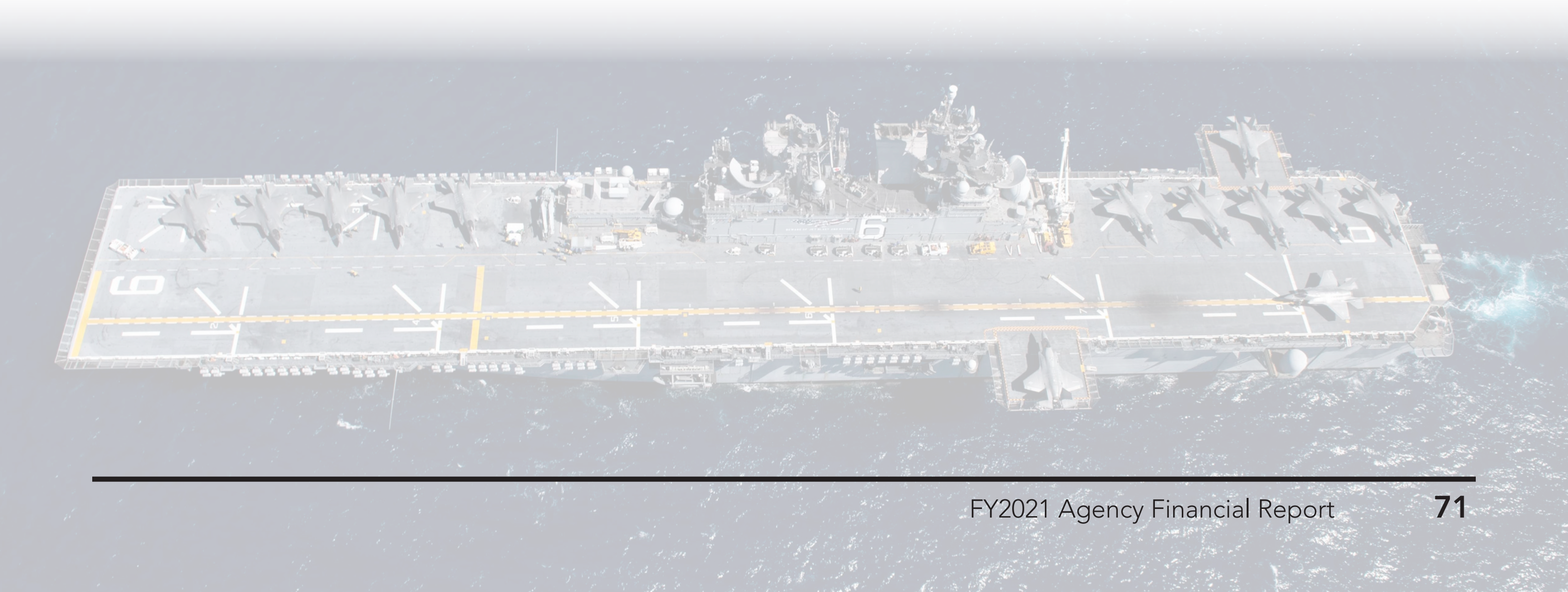
## United States Marine Corps

# CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

**For the Years Ended September 30, 2021 and 2020**

| *(Amounts in thousands)* | Unaudited **2021** | Unaudited **2020** |
|---|---|---|
| **UNEXPENDED APPROPRIATIONS** | | |
| Beginning Balances | $ 10,675,458 | $ 9,449,488 |
| Appropriations received | 28,888,599 | 29,853,373 |
| Appropriations transferred-in/out | (317,061) | (152,056) |
| Other adjustments (+/-) | (251,849) | (513,052) |
| Appropriations used | (28,940,058) | (27,962,295) |
| Change in unexpended appropriations | (620,369) | 1,225,970 |
| Total Unexpended Appropriations | 10,055,089 | 10,675,458 |
| **CUMULATIVE RESULTS OF OPERATIONS** | | |
| Beginning Balances | 30,363,736 | 28,756,670 |
| Prior Period Adjustments: | | |
| Changes in accounting principles (+/-) | (1,371,794) | 1,753,438 |
| Beginning Balances, as adjusted (Includes Funds from Dedicated Collections of $1,369 in FY2021 and $1,293 in FY2020 - See Note 15) | 28,991,942 | 30,510,108 |
| Other adjustments (+/-) | (7,582) | (2,206) |
| Appropriations used | 28,940,058 | 27,962,295 |
| Transfers-in/out without reimbursement (+/-) | 278,293 | 710,967 |
| Imputed financing from costs absorbed by others | 88,578 | 76,357 |
| Other (+/-) | 701,701 | (925,426) |
| **Net Cost of Operations** (+/-) (Includes Funds from Dedicated Collections of $(41) in FY2021 and $(76) in FY2020 - See Note 15) | 30,877,334 | 27,968,359 |
| **Change in Cumulative Results of Operations** (Includes Funds from Dedicated Collections of $41 in FY2021 and $76 in FY2020 - See Note 15) | (876,286) | (146,372) |
| Cumulative Results of Operations (Includes Funds from Dedicated Collections of $1,410 in FY2021 and $1,369 in FY2020 - See Note 15) | 28,115,656 | 30,363,736 |
| **NET POSITION** | $ 38,170,745 | $ 41,039,194 |

*The accompanying notes are an integral part of these statements.*



## United States Marine Corps

# COMBINED STATEMENTS OF BUDGETARY RESOURCES

**For the Years Ended September 30, 2021 and 2020**

| *(Amounts in thousands)* | | Unaudited **2021** | | Unaudited **2020** |
|---|---|---|---|---|
| **BUDGETARY RESOURCES:** | | | | |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | $ | 1,822,297 | $ | 1,547,290 |
| Appropriations (discretionary and mandatory) | | 28,634,208 | | 29,761,822 |
| Spending Authority from offsetting collections (discretionary and mandatory) | | 335,350 | | 342,727 |
| Total Budgetary Resources | $ | 30,791,855 | $ | 31,651,839 |
| **STATUS OF BUDGETARY RESOURCES:** | | | | |
| New obligations and upward adjustments (total) | $ | 29,505,624 | $ | 30,229,937 |
| Unobligated balance, end of year: | | | | |
| Apportioned, unexpired accounts | | 834,067 | | 993,190 |
| Unapportioned, unexpired accounts | | 32 | | – |
| Unexpired unobligated balance, end of year | | 834,099 | | 993,190 |
| Expired unobligated balance, end of year | | 452,132 | | 428,712 |
| Unobligated balance, end of year (total) | | 1,286,231 | | 1,421,902 |
| Total Budgetary Resources | $ | 30,791,855 | $ | 31,651,839 |
| **OUTLAYS, NET:** | | | | |
| Outlays, net (total) (discretionary and mandatory) | $ | 28,831,402 | $ | 27,737,250 |
| Distributed offsetting receipts (-) | | (178) | | 35,026 |
| Agency Outlays, net (discretionary and mandatory) | $ | 28,831,224 | $ | 27,772,276 |

*The accompanying notes are an integral part of these statements.*

## Note 1. Summary of Significant Accounting Policies

**1.A. Basis of Presentation**

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the USMC as required by the CFO Act of 1990, as amended by the GMRA of 1994, and OMB Circular No. A-136 as amended.

These financial statements have been prepared from the books and records of the USMC in accordance with U.S. GAAP, promulgated by the FASAB, except as otherwise noted throughout the Agency Financial Report as applicable. The USMC is unable to implement all elements of U.S. GAAP and OMB Circular No. A-136, as amended, due to limitations of financial and non-financial management processes and systems that support the financial statements.

The USMC is not in full compliance with the following authoritative accounting guidance:

- Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*
- SFFAS No. 3, *Accounting for Inventory and Related Property*
- SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*
- SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- SFFAS No. 10, *Accounting for Internal Use Software*
- SFFAS No. 29, *Heritage Assets and Stewardship Land*
- SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*
- SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment, Amending* SFFAS 6, SFFAS 10, SFFAS 23, *and Rescinding* SFFAS 35
- SFFAS No. 53, *Budget and Accrual Reconciliation*
- Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*
- OMB Circular No. A-136, *Financial Reporting Requirements*
- Treasury Financial Manual (TFM)

The accompanying financial statements account for all resources for which the USMC is responsible, excluding the USMC working capital fund (WCF) activities and account balances. The USMC WCF is separately consolidated into the U.S. Department of the Navy (DoN) WCF financial statements and footnote disclosures.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

**1.B. Reporting Entity**

The USMC reporting entity is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the USMC may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government.

The USMC is required to produce stand-alone financial statements, although it is a component reporting entity of the DoN. The USMC does not have any sub-components but consolidates allocation transfer activity into its financial statements and footnotes.

Refer to the MD&A - Mission and Organization section for additional information about the USMC organizational structure.

The USMC receives support from other U.S. Department of Defense (DoD) entities to efficiently and effectively execute its operations as a military service. For example, buildings and facilities on the USMC installations are constructed by the DoN's Naval Facilities Engineering Systems Command (NAVFAC) because the DoN receives the Military Construction funding; the USMC uses DoN aircraft, for which the maintenance and repair (M&R) are performed by the DoN's Naval Air Systems Command (NAVAIR); healthcare services are provided to the USMC military personnel through the Military Health System led by the Defense Health Agency; and, similar to other DoD agencies, retirement benefits for active duty and reserve Marines, disability retirement benefits, and survivor benefits are all administered by the Military Retirement Fund (MRF).

The USMC also relies on third party service providers, primarily the Defense Finance and Accounting Service (DFAS) for accounting services, the Defense Logistics Agency (DLA) for procurement services, and the Defense Information Systems Agency for information technology (IT) goods and services.

The USMC's Non-Appropriated Fund Instrumentalities (NAFIs) are fiscal entities supported in whole or in part by non-appropriated funds (NAFs). NAFs are generated from sales and user fees charged by the NAFIs. The USMC also has public-private partnerships (P3) for military housing improvements. These P3s represent risk-sharing arrangements or transactions lasting more than five years between public and private sector entities and are disclosed in accordance with SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*. The NAFIs and P3s are determined to be disclosure entities in accordance with SFFAS No. 47, *Reporting Entity*, and are not consolidated entities. Additional information is provided in Note 19, *Public-Private Partnerships* and Note 20, *Disclosure Entities*.

**1.C. Appropriations and Funds**

To support its core mission, the USMC receives General Fund appropriations for active duty military and reserve personnel; operations and maintenance (O&M); procurement; Medicare Eligible Retiree Health Fund Contribution, and research, development, test, and evaluation (RDT&E). These General Fund appropriations may be non-shared appropriations (i.e., the USMC only) or shared appropriations (i.e., shared with the U.S. Navy). For shared appropriations, the DoN is appropriated the funding and then allocates funding to the USMC for RDT&E, procurement of ammunition, military family housing operations, and other procurement, as necessary.

The USMC also reports certain special funds as discussed in Note 15, *Funds from Dedicated Collections*.

A portion of the USMC's funds, known as allocation transfers, are routed to other federal entities for execution on the USMC's behalf. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) are reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. The USMC allocates funds, as the parent, to the Department of Transportation's (DOT) Federal Highway Administration. The USMC receives allocation transfers as the child from the DoN for certain operations that are excluded from the USMC's financial statements and reported back for inclusion within the U.S. Navy's financial statements. The USMC also receives allocation transfers from Security Assistance programs. The Security Assistance programs meet the OMB exception for Executive Office of the President funds, but they are reported separately from the USMC financial statements based on an agreement with OMB.

**1.D. Basis of Accounting**

The USMC records transactions on the accrual and budgetary bases of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases, is prior to the occurrence of an accrual-based transaction. Budgetary accounting is used for planning and control purposes, relates to both the receipt and use of cash, and is essential for compliance with legal constraints and controls over the use of federal funds.

<u>Application of Accounting Estimates</u>. The financial statements are based on the selection of accounting policies and the application of accounting estimates, some of which require management to make significant assumptions. Estimates are based on historical information applied to current conditions that may change in the future and actual results could differ materially from the estimated amounts. Estimates are made for payroll accruals, accounts payable (AP), environmental liabilities, deemed cost property valuations, allowance for doubtful accounts, contingent liabilities, depreciation expense, public-private partnership contributions, and transportation of people and things-related obligations.

**1.E. Revenues and Other Financing Sources**

The USMC receives the majority of the funding needed to perform its mission through appropriations. These appropriations may be used within statutory limits for operating and capital expenditures. In addition to appropriations, other financing sources include exchange revenues. Exchange revenues are derived from transactions in which the government provides value to the public or another government entity at a price. The USMC is not in receipt of non-exchange revenue.

The USMC receives revenue from a number of sources, including commercial vendors conducting business at the USMC installations (e.g., remittances of rent or lease payments to the USMC for space on the USMC-owned property); utility payments and recycling service fees; payments from other military services and executive branch agencies, such as the State Department, which are operating out of the USMC's installations; royalties from licensing and trademarking agreements with external parties; and out leases for agricultural activities taking place on the USMC installations. Other Federal and non-Federal entities pay the USMC based on specific terms of the agreements that govern the use of the USMC facilities, often reimbursable agreements.

**1.F. Recognition of Expenses**

GAAP requires the recognition of expenses in the period incurred. Current financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. In some instances, expenditures for capital and other long-term assets are initially recognized as operating expenses (such is the case for General Property, Plant, & Equipment (GPP&E) and Operating Materiel and Supplies (OM&S)) due to system and/or business process limitations, but are adjusted to be recorded in the proper asset account at period end.

**1.G. Accounting for Intragovernmental Activities**

Intragovernmental assets and liabilities are those recognized from business transactions with other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities. Intragovernmental costs are payments or accruals of cost for goods and services provided by other federal entities.

The TFM, Volume 1, Part 2 - Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. In addition, in an effort to efficiently identify intragovernmental transactions by customer, the USMC has implemented the DoD's trading partner requirements to capture trading partner data. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, DFAS adjusts the USMC's buyer-side records to agree with the DoD seller-side balances, which are then eliminated at the DoN and/or DoD reporting level.

**1.H. Funds with the U.S. Treasury**

Fund Balance with Treasury (FBWT) is maintained in U.S. Treasury accounts. FBWT is available to pay current liabilities and finance authorized purchases. FBWT is increased by the receipt of budgetary resources (appropriations and collections), decreased by outlays, and is either increased or decreased by funds transfers. In accordance with U.S. Treasury guidelines, FBWT also decreases when appropriations are cancelled due to expiration, rescission, or sequestration. The USMC's FBWT does not include fiduciary assets or funds, but does include general and special funds as presented on the balance sheet. The disbursing offices of the USMC and DFAS process the majority of the USMC's cash collections, disbursements, and adjustments worldwide. Other agencies, such as other military services, the U.S. Army Corps of Engineers, and the State Department's financial services centers also process disbursements and collections on behalf of the USMC. On a monthly basis, the USMC's FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury FBWT accounts.

FBWT includes amounts for collection and disbursement transactions that are recorded in suspense accounts as a result of missing or mismatched lines of accounting or other discrepancies. The USMC shares DoN suspense accounts with the U.S. Navy, and the transactions recorded therein are researched and properly reclassified pending disposition by the responsible financial managers. The USMC may have transactions in other DoD agency's suspense accounts that are also researched and properly reclassified pending disposition by the responsible financial managers.

See Note 3, *Fund Balance with Treasury* for additional information.

**1.I. Cash and Other Monetary Assets**

Cash and other monetary assets consist of cash held by disbursing officers. Disbursing officers are located at all of the USMC's installations and forward operating areas. Cash is classified as non-entity and is restricted.

See Note 4, *Cash and Other Monetary Assets* for additional information.

**1.J. Accounts Receivable, Net**

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable, net of the allowance for estimated uncollectible amounts. Allowances for uncollectible accounts from federal entities and the public are based upon a group analysis of outstanding aged receivables and an allowance percentage derived from collection experience.

Claims on intragovernmental receivables are resolved between the agencies in accordance with the Intragovernmental Business Rules published in Appendix 10 of TFM, Volume 1, Part 2, Chapter 4700.

See Note 5, *Accounts Receivable, Net* for additional information.

**1.K. Inventory and Related Property, Net**

The USMC does not hold inventory for resale; rather, the USMC has related property known as OM&S. The USMC values OM&S through a combination of standard catalog price and latest acquisition cost using a process that approximates historical cost. The USMC discloses OM&S based upon the type and condition of the asset. OM&S is disclosed as "held for use," "held in reserve for future use," "held for repair," "in development," or "excess, obsolete, or unserviceable." OM&S "held for use" consists of items that are consumed during the normal course of the USMC operations. OM&S "held in reserve for future use" consists of items not normally used in the course of the USMC operations but have more than a remote chance of being needed in the future. OM&S "held for repair" consists of materials that are not in usable condition but can be economically repaired. OM&S "in development" costs represent the cost incurred or value of tangible personal property in development that will be consumed in normal operations upon completion of development. Excess, Obsolete, and Unserviceable (EOU) OM&S consists of assets more economical to dispose of than maintain/repair and are defined as follows: 1) excess OM&S are stocks that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future and do not meet management's criteria to be held in reserve for future use; 2) obsolete OM&S are no longer needed due to changes in technology, laws, customs, or operations, and 3) unserviceable OM&S are physically damaged and cannot be consumed in operations. The USMC recognizes EOU OM&S at a net realizable value of zero.

Due to long standing business processes and financial system deficiencies, the USMC is unable to make an unreserved assertion for OM&S opening balances in accordance with SFFAS No. 48.

See Note 6, *Inventory and Related Property, Net* for additional information.

**1.L. General Property, Plant, and Equipment, Net**

GPP&E assets are those that are used by the USMC in supporting its mission. GPP&E are capitalized in accordance with SFFAS No. 6, and SFFAS No. 10, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the USMC's capitalization threshold. The USMC capitalizes improvements to existing GPP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The USMC depreciates all GPP&E, other than land, on a straight-line basis.

Systems required to account for the USMC's GPP&E at historical cost on a go-forward basis in accordance with SFFAS No. 6 and SFFAS No. 10 are not yet fully in place. Therefore, the USMC is not making an unreserved assertion in accordance with SFFAS No. 50, with respect to this balance sheet line item or any of the property components thereof.

Real Property, which constitutes a significant amount of the GPP&E line item balance, has a capitalization threshold of $250 thousand. In accordance with SFFAS No. 50 and the Office of the Under Secretary of Defense (Comptroller) policy, the USMC elected to use deflated plant replacement value (D-PRV) to value real property assets, inclusive of capital improvements, to establish beginning balances; however, as noted, beginning real property balances have not been asserted to in accordance with the standard. D-PRV is based on cost factors, such as averages of contractual cost data from the prior three years, commercially available cost data, and models using general price information. D-PRV is based on the asset's placed-in-service-date (PISD) and factors and tables periodically published by the Bureau of Economic Analysis.

The USMC reports the Real Property within the jurisdiction of the Marine Corps installations in its financial statements because it is the designated installation host. This includes Real Property on the Marine Corps installations, including Real Property used and occupied by the other Military Departments, Navy WCF, USMC WCF, DoD WCF, DLA, Defense Commissary Agency, DoD Education Activity, and Defense Health Agency (who are not the installation host). The USMC who is the installation host does not report assets on its installations that were funded and are exclusively used by an entity not included in the consolidated DoD financial statements. While the USMC is responsible and accountable for accepting, controlling, managing, and utilizing Real Property assets, the USMC may enter into Memoranda of Agreement, with another military department, Washington Headquarters Service (WHS), or other DoD Components, and license or permit with a non-DoD governmental agencies, transferring the right to control the use of a Marine Corps real property asset to the other Military Department, WHS, and other DoD Components and non-DoD governmental agencies (who are not the installation host). The transfer of the right to control the use of the Real Property asset does not transfer jurisdiction, and the asset remains an asset under the jurisdiction of the USMC.

The DoN accumulates and reports Real Property construction in progress (CIP) on the U.S. Navy's consolidated financial statements. The DoN receives Military Construction funds and executes these funds to further the mission of the DoN consolidated entity. When a building or other structure is complete, the DoN transfers the finished product to the USMC, at which point the USMC will record the asset and report it on the USMC's financial statements. The USMC is responsible for sustainment, utilization, and operational control until the asset is disposed.

General Equipment (GE) consists of all personal property intended to be used by the USMC to carry out battlefield missions, and used by installations, bases, and stations to carry out non-battlefield essential functions. By definition, GE: (1) does not ordinarily lose its identity or become a component part of another article and is available for the use of the reporting entity for its intended purpose, (2) has intangible assets included in the cost of the related equipment (e.g., software that is necessary to operate the equipment, without which, the item of GE would be unusable), and (3) are generally functionally complete assets that should be valued based on the cost of the final assembly, including the cost of embedded items. The USMC's capitalization threshold is $100 thousand for GE and is $250 thousand for internal use software (IUS).

In cases where the USMC funds capital improvements to an asset that is reported by another DoD component, the value of the capital improvement is transferred after being placed in service, and reported by the DoD component that is assigned accountability of the asset. The USMC may use assets to complete its mission that are reported by another DoD component. For example, with the exception of unmanned aircraft, all aircraft used by the USMC are reported by the U.S. Navy. This reporting policy has been implemented in accordance with FASAB Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*.

The GE CIP balance is estimated based on total execution, net of progress payments made, and end items received and accepted as reported by the Mechanization of Contract Administration Services system by, or on behalf of, the USMC.

The USMC has elected to apply the provisions of SFFAS No. 50, paragraph 13 to land and land rights. For purposes of financial reporting in accordance with these provisions, the USMC has fully expensed all existing land and land rights and disclosed total acres of land.

See Note 7, *General Property, Plant, and Equipment, Net* for additional information.

**1.M. Stewardship Property, Plant, and Equipment**
The USMC maintains Stewardship Property, Plant, and Equipment (PP&E) reflective of its rich history and aims to preserve assets and property of historical significance to educate current and future generations. The USMC performs maintenance and accountability of its heritage assets and stewardship land although such activity is not directly related to its mission execution.

See Note 8, *Stewardship Property, Plant, and Equipment* for additional information.

**1.N. Advances and Prepayments**
The USMC payments made in advance of the receipt of goods and services are recorded as advances and prepayments at the time of prepayment, and recognized as expenditures/operating expenses when the related goods and services are received. The USMC makes advance payments to intragovernmental trading partners for reimbursable orders, reported on the balanced sheet as Intragovernmental - Advances and Prepayments. The USMC also makes advance payments to the Marines for payroll and permanent change-of-station. The USMC records these advances on the balance sheet as "Other than Intragovernmental - Advances and Prepayments." The USMC's advances and prepayments that are subject to refund are subsequently transferred to accounts receivable.

Public entities with which the USMC does business are required to provide advance payments for goods and services, and for rent and lease payments for usage of space on the USMC's installations and facilities. See "Advances from Others and Deferred Revenue" in Note 13, *Other Liabilities* for additional information.

**1.O. Contingencies, Environmental, and Other Liabilities**
SFFAS No. 5, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The USMC recognizes contingent liabilities when past events occur, a future loss is probable, and the loss amount can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses.

The USMC's contingent liabilities may arise from pending or threatened litigation or claims and assessments due to events such as aircraft and vehicle accidents; property or environmental damage; and breach of contracts. See Note 14, *Contingencies* for additional information.

Environmental liabilities are estimates for anticipated environmental clean-up or disposal costs for hazardous waste associated with future closure of GPP&E assets. See Note 12, *Environmental and Disposal Liabilities* for additional information.

**1.P. Accrued Leave**
The USMC reports accrued unfunded liabilities for military leave and annual leave for civilians. Leave is accrued as it is earned and reduced when it is taken. Annual leave is accrued each pay period based on an employee's time of service. In accordance with the federal leave policy established by the Office of Personnel Management (OPM), full-time employees with fewer than three years of service accrue four hours of annual leave each pay period; full-time employees with at least three years of service but fewer than 15 years of service accrue six hours of annual leave each pay period; and full-time employees with 15 years of service or more accrue eight hours of annual leave each pay period. The liabilities are recorded based on current pay rates. While employees accumulate sick leave each pay period, sick leave for civilians is expensed as taken. See Note 11, *Federal Employee Benefits Payable* for additional information.

**1.Q. Net Position**
Net position consists of unexpended appropriations and cumulative results of operations (CRO). Unexpended appropriations are represented by the total of undelivered orders and unobligated balances. CRO represent the net of revenues, expenses, other financing sources, gains, and losses since inception. CRO is also reflective of the cumulative amount of prior-period adjustments made, if applicable, and the cumulative amount of donations and transfers of assets in/out without reimbursement.

**1.R. Treaties for Use of Foreign Bases**
The U.S. Government enters into Status of Forces Agreements (SOFA) with foreign countries, such as Japan and the Republic of Korea. As part of these agreements, the DoD and, by extension, the USMC, are provided with economic and financial burden sharing resources (e.g., utilities, labor, construction of buildings and military barracks, etc.) to provide for the common defense and security of the foreign governments with whom the SOFAs are made. In accordance with DoD Policy, the execution of burden sharing funds are reported at the consolidated DoD level and are not reported on the USMC financial statements.

**1.S. Federal Employee Benefits Payable**
USMC recognizes funded and those not covered by budgetary resources (unfunded), amounts owed to the Department of Labor (DOL) for valid claims paid under the *Federal Employee's Compensation Act* (FECA) for the USMC's employees who are injured on the job, beneficiaries of employees whose cause of death relates to injury or occupational disease, or employees who have fallen ill with work-related or occupational disease. The USMC records an unfunded liability for unemployment benefits based on estimates provided by the DOL. The DOL administers the FECA program and seeks reimbursement for claims paid

on behalf of the USMC, and the unemployment insurance program, which charges back amounts paid on behalf of the USMC. For financial reporting purposes, the DOL develops the actuarial liability for civilian workers' compensation benefits under the requirements of the FECA and provides it to the USMC at the end of FY. See Note 10, *Liabilities Not Covered by Budgetary Resources*, and Note 11, *Federal Employee Benefits Payable*, respectively, for additional disclosures regarding these programs.

Military retirement is accounted for in the audited financial statements of the MRF; as such, the USMC does not record any liabilities or obligations for pensions or healthcare retirement benefits. The MRF is funded through a permanent, indefinite appropriation, which finances the liabilities of DoD under military retirement and survivor benefit programs on an actuarial basis.

The USMC civilian employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For employees covered under CSRS, the USMC contributes a fixed percentage of pay. Most employees hired after December 31, 1983, are automatically covered by the FERS. The FERS plan has three parts: a defined benefit payment, Social Security benefits, and the Thrift Savings Plan (TSP). For employees covered under FERS, the USMC contributes a fixed percentage of pay for the defined benefit portion and the employer's matching share for Social Security and Medicare Insurance. The USMC automatically contributes 1 percent of each employee's pay to the TSP and matches the first 3 percent of employee contributions dollar for dollar. Each additional dollar of the employee's next 2 percent of basic pay is matched at 50 cents on the dollar.

OPM is the administering agency for CSRS and FERS plans and, thus, reports the assets, accumulated plan benefits, and unfunded liabilities of these plans applicable to federal employees. The USMC recognizes an imputed expense in the Consolidated Statement of Net Cost (SNC) and an imputed financing source on the Statement of Changes in Net Position (SCNP) for the annualized unfunded portion of pension and post-retirement benefits as computed by OPM.

OPM administers insurance benefit programs available for coverage to the USMC's civilian employees. The programs are available to Civilian employees, but employees do not have to participate. These programs include life, health, and long-term care insurance. OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees, and the amount and timing of the benefit received. The USMC has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer matches are submitted to OPM.

The life insurance program, Federal Employee Group Life Insurance plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (FEHB) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (FEDVIP). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis. The Federal Long-Term Care Insurance Program (FLTCIP) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB. However, employees are not required to be enrolled in FEHB.

TRICARE is a worldwide health care program that provides coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with a network and non-network TRICARE authorized civilian health care professionals, institutions, pharmacies, and suppliers to provide access to health care services. TRICARE offers multiple health care plans. The Defense Health Program serves as the program manager for TRICARE, providing oversight, payment, and management of private sector care administered by contracted claims processors. As such, the TRICARE portion of the health benefits actuarial liability that is applicable to the USMC is reported only on the DoD agency-wide financial statements and the Medicare Eligible Retiree Health Care Fund (MERHCF) financial statements.

## Note 2. Non-Entity Assets

| As of September 30<br>*(Amounts in thousands)* | Unaudited<br>**2021** | Unaudited<br>**2020** |
|---|---|---|
| **Intragovernmental Assets** | | |
| Fund Balance with Treasury | $ – | $ 61,732 |
| Total Intragovernmental Assets | – | 61,732 |
| **Non-Federal Assets** | | |
| Cash and Other Monetary Assets | 4,208 | 5,063 |
| Accounts Receivable | 98 | 43 |
| Total Non-Federal Assets | 4,306 | 5,106 |
| **Total Non-Entity Assets** | 4,306 | 66,838 |
| **Total Entity Assets** | 42,647,245 | 44,196,471 |
| **Total Assets** | $ 42,651,551 | $ 44,263,309 |

Non-entity assets are not available for use in the USMC's normal operations. The USMC has stewardship accountability and reporting responsibility for these non-entity assets, which are included on the balance sheet.

Non-entity FBWT represents amounts held in deposit fund accounts consisting of public monies that are not USMC funds. They contain funds collected from various sources and held until disbursed, in accordance with their defined purpose. Effective FY2021, the DoN determined that all non-entity deposit accounts shared between DoN entities will be reported in the U.S. Navy financial statements. The DoN made the determination because separating of the deposit account balances for reporting in each entities financial statements is not required. The non-entity FBWT account decreased by $61,732 thousand or 100.0% due to the deposit fund accounts reporting modification.

Non-entity cash and other monetary assets represents U.S. Treasury cash and foreign currencies provided to and held by USMC disbursing officers. The cash held by USMC disbursing officers is intended to cover immediate operational cash needs of all U.S. military branches, including the USMC, and other federal agencies, both domestic and overseas. Cash disbursed and collected by disbursing officers is reported to Treasury, which is subsequently charged against the appropriate agencies' FBWT account or deposited into a receipt account. Cash holdings are replenished by Treasury as needed and within the guidelines specified in DoD policy.

The non-entity non-Federal accounts receivable represents interest receivable, penalties receivable, and administrative fees receivable attributed to aged delinquent debts with the public. Once collected, non-entity receivables are deposited into the U.S. Treasury as miscellaneous receipts. Additionally, the non-entity non-Federal accounts receivable also includes any disbursing officer cash losses that must be repaid to Treasury.

## Note 3. Fund Balance with Treasury

FBWT represents funds held with the Department of the Treasury upon which the USMC can draw to pay for its ongoing operations. The USMC's FBWT primarily includes direct appropriations to the USMC and appropriations shared with the U.S. Navy. FBWT also includes deposit funds, special revenue funds, funding transfers, clearing accounts, and funding sub-allocated to the DOT.

The USMC's FBWT is reconciled on a monthly basis to the balance on record with the U.S. Treasury. Adjustments, if any, are made to account for balances in suspense accounts, deposit funds, and parent/child funding; temporary timing differences between amounts disbursed by Treasury but not yet recorded by the USMC; and misclassified transactions.

### Status of Fund Balance with Treasury

| As of September 30<br>*(Amounts in thousands)* | Unaudited<br>**2021** | Unaudited<br>**2020** |
|---|---|---|
| **Unobligated Balance:** | | |
| Available | $ 834,067 | $ 993,190 |
| Unavailable | 452,164 | 428,713 |
| **Total Unobligated Balance** | 1,286,231 | 1,421,903 |
| **Obligated Balance not yet Disbursed** | 10,747,186 | 11,139,611 |
| **Non-Budgetary FBWT:** | | |
| Clearing accounts | 10 | (1) |
| Deposit funds | – | 61,732 |
| **Total Non-Budgetary FBWT** | 10 | 61,731 |
| **Non-FBWT Budgetary Accounts:** | | |
| Unfilled Customer Orders without Advance | (28,420) | (27,443) |
| Receivables and Other | (6,432) | (15,743) |
| **Total Non-FBWT Budgetary Accounts** | (34,852) | (43,186) |
| **Total FBWT** | $ 11,998,575 | $ 12,580,059 |

Budgetary resources within FBWT are classified as unobligated available, unobligated unavailable, and obligated but not yet disbursed. Unobligated available balance represents budgetary resources that are available for new obligations. There are no restrictions on unobligated available balances.

Unobligated unavailable balances represent budgetary resources under expired budget authority that are not available to fund new obligations. It also includes unobligated balances that have not been apportioned.

Obligated balance not yet disbursed represents funds that have been obligated; the balance includes goods and services not yet received, and goods and services received, but for which payment has not yet been made.

Non-budgetary FBWT includes accounts without budgetary authority, such as deposit funds (see Note 2, *Non-Entity Assets*) and clearing accounts. Clearing accounts include amounts paid and collected by disbursing officers held in suspense by the Treasury, undistributed intragovernmental payments, and amounts in suspense due to lost or cancelled Treasury checks. Effective FY2021, the entire balance in non-budgetary FBWT deposit funds consisting of non-entity deposit accounts are reported in the U.S. Navy financial statements.

The Non-FBWT budgetary accounts include budget authority made available to the USMC for the fulfillment of reimbursable customer orders, but where FBWT is not impacted until a cash collection is received from the customer.

The USMC returned $204,291 thousand ($183,929 thousand non-shared, $20,362 thousand shared) of funds to Treasury due to unused funds in expired appropriations and no amounts related to no-year appropriation surplus in FY2021. The USMC returned $431,455 thousand ($405,090 thousand non-shared, $26,365 thousand shared) of funds to Treasury due to unused funds in expired appropriations and no amounts related to no-year appropriation surplus in FY2020.

## Note 4. Cash and Other Monetary Assets

| As of September 30<br>*(Amounts in thousands)* | Unaudited<br>**2021** | Unaudited<br>**2020** |
|---|---|---|
| **Cash** | $ 4,208 | $ 5,060 |
| **Foreign Currency** | – | 3 |
| **Total Cash and Other Monetary Assets** | $ 4,208 | $ 5,063 |

Cash and foreign currency are non-entity assets held by the USMC. As non-entity assets, cash and foreign currency are inherently restricted, held by the USMC disbursing officers but not available to fund the USMC's normal operations.

Refer to Note 2, *Non-Entity Assets* for additional information. Foreign currency is held in support of disbursing officer operations overseas.

## Note 5. Accounts Receivable, Net

| | Unaudited<br>**2021** | | |
|---|---|---|---|
| As of September 30<br>*(Amounts in thousands)* | **Gross Amount Due** | **Allowance For Estimated Uncollectibles** | **Accounts Receivable, Net** |
| **Intragovernmental Receivables** | $ 28,784 | $ (1,196) | $ 27,588 |
| **Non-Federal Receivables (From the Public)** | 18,905 | (730) | 18,175 |
| **Total Accounts Receivable** | $ 47,689 | $ (1,926) | $ 45,763 |

| | Unaudited<br>**2020** | | |
|---|---|---|---|
| As of September 30<br>*(Amounts in thousands)* | **Gross Amount Due** | **Allowance For Estimated Uncollectibles** | **Accounts Receivable, Net** |
| **Intragovernmental Receivables** | $ 18,742 | $ – | $ 18,742 |
| **Non-Federal Receivables (From the Public)** | 15,764 | (3,299) | 12,465 |
| **Total Accounts Receivable** | $ 34,506 | $ (3,299) | $ 31,207 |

Accounts receivable represents the USMC's claim for payment from other entities. The USMC's intragovernmental receivables include amounts due to the USMC from other DoD agencies through reimbursable orders for various goods and services, such as utilities, supplies, fuel, and transportation. The receivables from the public are for claims of debts owed by separated Marines, claims of debt from vendor and contractor overpayments, claims for employee travel advance overpayments, and for utility services provided by the USMC on a reimbursable basis in relation to family housing owned and operated by private companies aboard USMC installations.

Each fiscal quarter, the USMC uses three years of aged historical accounts receivable data to compute the allowance percentage for the following categories of aged receivables: 91-180 days, 181-365 days, and 1-2 years. The allowance percentages are then applied to their corresponding balances by age category at year-end to calculate the allowance for uncollectible accounts. The USMC recognizes a 100% allowance on accounts receivable greater than 2 years.

# Note 6. Inventory and Related Property, Net

| As of September 30 *(Amounts in thousands)* | Unaudited 2021 OM&S, Gross Value | Revaluation Allowance | OM&S, Net | Valuation Method |
|---|---|---|---|---|
| **OM&S Categories** | | | | |
| Held for Use | $ 6,558,920 | $ – | $ 6,558,920 | SP/LAC |
| Held in Reserve for Future Use | 438,858 | – | 438,858 | SP/LAC |
| Held for Repair | 560,816 | – | 560,816 | SP/LAC |
| In Development | 240,481 | – | 240,481 | SP/LAC |
| Excess, Obsolete, and Unserviceable | 16,992 | (16,992) | – | NRV |
| **Total** | $ 7,816,067 | $ (16,992) | $ 7,799,075 | |

| As of September 30 *(Amounts in thousands)* | Unaudited 2020 OM&S, Gross Value | Revaluation Allowance | OM&S, Net | Valuation Method |
|---|---|---|---|---|
| **OM&S Categories** | | | | |
| Held for Use | $ 7,183,233 | $ – | $ 7,183,233 | SP/LAC |
| Held in Reserve for Future Use | 432,356 | – | 432,356 | SP/LAC |
| Held for Repair | 422,996 | – | 422,996 | SP/LAC |
| In Development | 338,086 | – | 338,086 | SP/LAC |
| Excess, Obsolete, and Unserviceable | 14,928 | (14,928) | – | NRV |
| **Total** | $ 8,391,599 | $ (14,928) | $ 8,376,671 | |

**Legend for Valuation Methods:**

SP: Standard Catalog Price    LAC: Latest Acquisition Cost    NRV: Net Realizable Value

General Composition of Operating Materiel and Supplies

The USMC reports Ammunition and Non-Ammunition materiel as OM&S. Ammunition is any device charged with explosives, propellants, and pyrotechnics for use in connection with military operations and structure demolition. Non-ammunition items include spare and repair parts, fuel, construction materials, clothing and textiles, and medical and dental supplies. A significant amount of ammunition is held outside of the custody of the USMC by the U.S. Army and the U.S. Navy; however, the USMC maintains the rights to the ammunition and reports the balances on its financial statements. There are no restrictions on the use of OM&S.

Criteria for Identifying the Category to which Operating Materiel and Supplies are Assigned

The USMC determines reporting categories for OM&S using condition codes assigned to individual inventory items. The Deputy Commandant, Installations and Logistics for Non-Ammunition and the Program Manager for Ammunition make OM&S determinations consistently based on a process that considers factors such as item condition, intended use, and estimated time of consumption. OM&S identified as EOU is written down to its net realizable value prior to transfer to DLA's Disposition Services.

Property Remediation Adjustments

The USMC recognized OM&S beginning balance adjustments resulting from remediation activities performed as prior period adjustments due to changes in accounting principle during the first two quarters of FY2021. This practice followed the Office of the Under Secretary of Defense (OUSD) issued guidance directing the reporting of all prior period adjustments to be accounted as, "Change in Accounting Principles" until an unreserved assertion is made under SFFAS No. 48. However, following DoN issued guidance in March 2021, the USMC began to comply with recognizing such OM&S remediation adjustments as gains and losses.

Significant Changes from Prior Year

OM&S-In Development balance decreased by $97,605 thousand, or 28.9% due to the completion and delivery of an OM&S-Ammunition project that was in development, and from improvements made to reconcile recorded amounts.

OM&S-Held for Repair increased by $137,820 thousand, or 32.6% due to OM&S Ammunition items identified for repair from the inventory of mortars and rocket pods.

## Note 7. General Property, Plant, and Equipment, Net

| As of September 30<br>*(Amounts in thousands)* | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value |
|---|---|---|---|---|---|
| | | | Unaudited 2021 | | |
| **Major Asset Classes** | | | | | |
| Buildings, Structures, and Facilities | S/L | 35, 40, or 45 | $ 24,855,464 | $ (10,023,327) | $ 14,832,137 |
| Internal Use Software | S/L | 2-5 or 10 | 599 | (18) | 581 |
| General Equipment | S/L | Various | 19,807,117 | (12,729,804) | 7,077,313 |
| Construction-in-Progress | N/A | N/A | 794,600 | N/A | 794,600 |
| Total General PP&E | | | $ 45,457,780 | $ (22,753,149) | $ 22,704,631 |

| As of September 30<br>*(Amounts in thousands)* | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value |
|---|---|---|---|---|---|
| | | | Unaudited 2020 | | |
| **Major Asset Classes** | | | | | |
| Buildings, Structures, and Facilities | S/L | 35, 40, or 45 | $ 24,847,561 | $ (9,701,769) | $ 15,145,792 |
| Internal Use Software | S/L | 2-5 or 10 | 1,670 | – | 1,670 |
| General Equipment | S/L | Various | 22,407,191 | (15,060,587) | 7,346,604 |
| Construction-in-Progress | N/A | N/A | 515,211 | N/A | 515,211 |
| Total General PP&E | | | $ 47,771,633 | $ (24,762,356) | $ 23,009,277 |

**Legend for Depreciation Methods:**

S/L: Straight Line N/A: Not Applicable

### Significant Change from Prior Year

The $279,389 thousand or 54.2%, increase in "Construction-in-Progress" compared to the prior year is primarily attributable to process improvements made during FY2021 that refined how project costs were captured for the Military Equipment (ME) CIP projects. In addition, new ME projects were in progress during FY2021 which contributed to the increase.

### Land and Land Rights

In accordance with SFFAS No. 50, the USMC continues to expense land and land rights and discloses the total acres held at the beginning of the reporting period, the number of acres purchased or disposed of during the reporting period, and the number of acres held at the end of the reporting period. Any changes to land acreage and related property records from re-measurement using improved measurement technologies are disclosed under the ,"Change in Acreage," column of the following table.

Unaudited
**Land Acreage** *(in thousands)*

| As of 9/30/2019 | Additions | Change in Acreage | Deletions | As of 9/30/2020 | Additions | Change in Acreage | Deletions | As of 9/30/2021 |
|---|---|---|---|---|---|---|---|---|
| 1,239 | 7 | – | – | 1,246 | 20 | (25) | (1) | 1,240 |

### Real Property

Real property comprises majority of the USMC's net GPP&E balance. The USMC with the appropriate approvals may use O&M funding for buildings, structures, and capital improvements less than $2,000 thousand. In accordance with Title 10 of the United States Code (U.S.C.), the construction of buildings, structures, and facilities is performed by the DoN's NAVFAC. NAVFAC has full command and control over construction operations, but the USMC has limited input when the facilities being constructed are for the USMC. The USMC recognizes a real property asset when a facility is constructed by NAVFAC and provided to the USMC to inhabit and utilize. Therefore, real property CIP is not recognized by the USMC as incurred, unless the USMC funds the real property CIP through its O&M appropriations. The USMC maintains the title of all completed assets and is responsible for those costs needed to repair and maintain the real property. Capital improvement plans are submitted to NAVFAC for approval, and NAVFAC ultimately decides when a project will occur, based on Department-level requirements. For some locations, the Army Corps of Engineers may construct capital improvements and/or buildings and structures. Such capital improvements are funded with DoN's Military Construction appropriation funds.

The USMC conducted an extensive analysis to identify the PISD for all capital real property assets. In some cases, the key supporting documentation did not exist to support the PISD, therefore the PISD was estimated using alternate sources such as cornerstones, plaques, as-built drawings, earliest known asset site plots, maintenance records, or documented similar assets.

**Internal Use Software**

IUS can be purchased from commercial vendors off-the-shelf, modified off-the-shelf, internally developed, or contractor developed. IUS includes software that is: (1) used to operate programs (e.g., financial and administrative software, including that used for project management), and (2) used to produce goods and provide services (e.g., maintenance work order management). IUS does not include computer software that is integrated into and necessary to operate GPP&E.

The USMC's IUS balance consists of completed software assets and software in-development costs. The USMC has efforts ongoing to address difficulties in determining the full universe of its IUS and software in-development costs.

**General Equipment**

GE is composed of all property not classified as real property, IUS, or land. It excludes aircraft, with the exception of unmanned aircraft. The DoN's NAVAIR has responsibility for the construction, repair, maintenance, and disposal of all aircraft. Consequently, the U.S. Navy records manned aircrafts used by the USMC in its financial records. GE consists of Garrison Property (GP) and ME. GP includes items, such as office equipment and material handling equipment. ME includes items such as weapon systems, components of weapon systems, and support equipment that is owned by the USMC for use in the performance of military missions and training.

Useful life determinations for GE vary by asset types based upon internal analysis. Service lives can range from 2 to 33 years depending upon the asset. Construction costs of capital GE are capitalized as CIP. Upon completion of the project, the costs are transferred to the GE account.

<u>Property Remediation Adjustments</u>

The USMC recognized GPP&E beginning balance adjustments resulting from remediation activities performed as prior period adjustments due to changes in accounting principle during the first two quarters of FY2021. This practice followed the OUSD issued guidance directing the reporting of all prior period adjustments to be accounted as, "Change in Accounting Principles" until an unreserved assertion is made under SFFAS No. 50. However, following DoN issued guidance in March 2021, the USMC began to comply with recognizing such PP&E remediation adjustments as gains and losses.

<u>Restrictions on the Use or Convertibility of GPP&E, Net</u>

For the USMC sites within and outside of the continental United States, there are no known restrictions on the use or convertibility of GPP&E.

<u>Impaired GPP&E</u>

Partial asset impairment is not a common occurrence in the USMC, as assets are either repaired to restore lost utility or removed from service. However, the USMC will recognize impairments for classes of assets or locations in the case of major events, (e.g., natural disasters) or if the impairment affects an entire class of assets.

<u>Deferred Maintenance and Repair</u>

The USMC tracks and reports deferred maintenance and repair (DM&R) of its GPP&E in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*. The DM&R information for GPP&E is reported in the Required Supplementary Information section.

**Leases**

The USMC currently does not account for leases in accordance with SFFAS No. 5 and SFFAS No. 6. The universe of real property leases was identified, and the USMC is in the process of reviewing lease information to properly account for capital and operating leases, and the required disclosure amounts.

# Note 8. Stewardship Property, Plant, and Equipment

Stewardship PP&E consists of Heritage Assets and Stewardship Land.

### Heritage Assets

Heritage assets consist of buildings, structures, and museum collections. The USMC's heritage assets consist of the following:

Unaudited
**Heritage Assets**

| Categories | Measure Quantity | As of 9/30/2019 | Additions | Deletions | As of 9/30/2020 | Additions | Deletions | As of 9/30/2021 |
|---|---|---|---|---|---|---|---|---|
| Buildings and Structures | Each | 78 | – | (17) | 61 | 2 | (2) | 61 |
| Archaeological Sites | Each | 34 | 4 | – | 38 | – | – | 38 |
| Museum Collection Items (Objects, Not Including Fine Art) | Each | 65,101 | 1,464 | (126) | 66,439 | 958 | (329) | 67,068 |
| Museum Collection Items (Objects, Fine Art) | Each | 10,369 | 287 | (3) | 10,653 | 80 | (13) | 10,720 |

The USMC uses buildings and stewardship land, discussed below, in its daily activities and includes the buildings on the balance sheet as multi-use heritage assets (capitalized and depreciated). The USMC has not fully established processes to account for and report its heritage assets in accordance with SFFAS No. 29. The USMC does not have the data available to disclose the physical quantity of multi-use heritage assets. These assets are used in current operations and reported within the GPP&E balance. Initiatives are ongoing to identify and account for the full population of multi-use heritage assets separate from the financial statement balances in order to make the appropriate disclosure.

Buildings and Structures
Buildings and structures include assets listed on or eligible for listing on the National Register of Historic Places.

Archaeological Sites
Archaeological sites include cemeteries, memorials, and other structures and statues that meet the definition of heritage assets.

Museum Collection Items
Museum collection items are artifacts that have historical or natural significance; cultural, educational, or artistic importance (including fine art, items such as portraits and artist depictions of historical value); or significant technical or architectural characteristics.

Acquisition and Withdrawal Process
Heritage assets are primarily acquired through donations from individuals and organizations. Museum collection items are acquired through donation, purchases (seldom occurrences), and transfer. Asset withdrawals from the heritage asset population arise from the USMC deaccession process. This occurs when museum curators in charge of a given collection develop a written report detailing why the asset is subject to deaccession. The deaccession report is presented to the USMC collections committees for a vote, after which it is signed off by the Director and the object is withdrawn. The USMC then documents the transfer or disposal, and the accessioned or deaccessioned objects are updated in the heritage asset database.

### Stewardship Land

The USMC's stewardship land consists mainly of mission-essential land acquired by transfer, donation, or devise. The USMC's stewardship land acres are as follows:

Unaudited
**Stewardship Land Acres** *(in thousands)*

| Facility Code | Facility Title | As of 9/30/2019 | Additions | Deletions | As of 9/30/2020 | Additions | Deletions | As of 9/30/2021 |
|---|---|---|---|---|---|---|---|---|
| 9120 | Withdrawn Public Land | 1,274 | 5 | (5) | 1,274 | 1 | – | 1,275 |
| | | | | | | **Total - Stewardship Land** | | 1,275 |

Some of this land is used as a buffer around the perimeter of the Marine Corps' installations and may be used as grazing land and forestry maintenance areas. The USMC strives to be a responsible steward of the land and maintains it in a way that protects human health and the environment and allows for training and support of force readiness. Once an installation determines that there is no longer a need for stewardship land, the installation submits a request to have the land removed from its accountability records. If the USMC approves of the request, the request is then sent to the DoN for execution of the removal of the stewardship land from the USMC accountability records.

Deferred Maintenance and Repair

The USMC tracks and reports DM&R of its Stewardship GPP&E in accordance with SFFAS No. 42. The methodology used to report the condition of heritage assets is based upon a combination of visual assessment of the objects, historic value to the USMC collection, and consideration of general display and storage standards for historic collections in accordance with USMC, DoN, and DoD Policy. The DM&R information for heritage assets is reported in the Required Supplementary Information section.

## Note 9. Other Assets

| As of September 30<br>*(Amounts in thousands)* | Unaudited<br>**2021** | Unaudited<br>**2020** |
|---|---|---|
| **Intragovernmental** | | |
| Advances and Prepayments | $ 57,543 | $ 24,873 |
| Total Intragovernmental | 57,543 | 24,873 |
| | | |
| **Other than Intragovernmental** | | |
| Advances and Prepayments | 7,699 | 8,518 |
| Other Assets | 34,057 | 227,641 |
| **Total Other than Intragovernmental** | 41,756 | 236,159 |
| **Total Other Assets** | $ 99,299 | $ 261,032 |

The intragovernmental advances and prepayments balance increased by $32,670 thousand or 131.4%. This increase is due to additional advances and prepayments made to the Department of State and the USMC WCF.

"Other than Intragovernmental - Other Assets" consists of real property and ME permanently removed from service but not yet disposed in accordance with FASAB Technical Release 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment*. Beginning in 2nd quarter of FY2021, the USMC records ME assets at net realizable value versus net book value when they are transferred into the Other Assets account until disposition. All such ME assets have a realizable value of zero but are recorded at $0.01 for tracking purposes. Prior ME assets included within this balance were also adjusted down to net realizable value of $0.01 and is the primary cause for the decrease in balance of $193,584 thousand or 85.0% at year end.

## Note 10. Liabilities Not Covered by Budgetary Resources

| As of September 30 *(Amounts in thousands)* | Unaudited **2021** | Unaudited **2020** |
|---|---|---|
| **Intragovernmental Liabilities** | | |
| Other | $ 39,941 | $ 56,684 |
| **Total Intragovernmental Liabilities** | 39,941 | 56,684 |
| **Non-Federal Liabilities** | | |
| Accounts Payable | 7,472 | 1,187 |
| Federal Employment Benefits Payable | 1,134,176 | 1,093,250 |
| Environmental and Disposal Liabilities | 1,308,730 | 189,565 |
| Other Liabilities | 11,825 | 13,437 |
| **Total Non-Federal Liabilities** | 2,462,203 | 1,297,439 |
| **Total Liabilities Not Covered by Budgetary Resources** | 2,502,144 | 1,354,123 |
| **Total Liabilities Covered by Budgetary Resources** | 1,978,662 | 1,869,992 |
| **Total Liabilities Not Requiring Budgetary Resources** | – | – |
| **Total Liabilities** | $ 4,480,806 | $ 3,224,115 |

Liabilities not covered by budgetary resources are liabilities that are not currently funded by existing budgetary authority as of the balance sheet date. Budgetary authority to satisfy these liabilities is expected to be provided in future-year appropriations.

"Intragovernmental Liabilities - Other" includes liabilities to the DOL for FECA claims paid on behalf of the USMC (see Note 13, *Other Liabilities*, for a detailed description of the USMC's FECA liabilities). This line item also consists of unfunded liabilities related to unemployment compensation. Unemployment benefits to unemployed DoD and civilian personnel and ex-service members are paid by the DOL from the FECA within the Unemployment Trust Fund. The DOL prepares a chargeback estimate and allocation of accrued benefits for existing claims, which is recognized by the USMC as an unfunded liability. After the benefits are paid, the DOL will prepare a chargeback billing for these benefit costs to be reimbursed by the DoD. At the time the liabilities become billed and due, the liabilities move from unfunded to funded, and are then reimbursed to the DOL. The Intragovernmental Liabilities - Other balance decrease of $16,743 thousand or 29.5% is due to the decrease of chargeback estimates and a reduced allocation of accrued benefits payable to the DOL for existing claims at year end.

"Non-Federal Liabilities - Accounts Payable" is related to valid claims associated with cancelled appropriations.

"Non-Federal Liabilities - Military Retirement and Other Federal Employment Benefits" consist of employee actuarial liabilities associated with the FECA. Refer to Note 11, *Federal Employee Benefits Payable*, for additional details and disclosures.

"Non-Federal Liabilities - Environmental and Disposal Liabilities" represent estimates related to future events that will be budgeted for when the assets generating environmental and disposal liabilities are removed from service and cleaned up in future years. The majority of the environmental and disposal liabilities balance increase of $1,119,165 thousand or 590.4% is due to an asbestos estimation methodology revision in FY2021. Refer to Note 12, *Environmental and Disposal Liabilities*, for additional details and disclosures.

"Non-Federal Liabilities - Other Liabilities" represent civilian and military unfunded leave and contingent liabilities. Unfunded military and civilian leave liabilities represent accrued, earned leave that will be funded in future-year appropriations.

"Total Liabilities Covered by Budgetary Resources" represent all funded liabilities including accounts payable amounts owed to Federal and non-Federal entities for goods and services received by the USMC. Due to existing system limitations, the USMC is not consistently performing receipt and acceptance activities that would record accounts payables in Standard Accounting Budgeting and Reporting System or accruing for goods or services received but not invoiced or paid. To address this limitation, the USMC estimates non-Federal contracts related accounts payable amounts at the end of each month.

## Note 11. Federal Employee Benefits Payable

| As of September 30<br>*(Amounts in thousands)* | Unaudited 2021<br>Liabilities | <br>(Assets Available to Pay Benefits) | <br>Unfunded Liabilities |
|---|---|---|---|
| **Other Benefits** | | | |
| Federal Employees' Compensation Act | $ 159,106 | $ – | $ 159,106 |
| Other | 1,002,584 | (27,514) | 975,070 |
| **Total Federal Employment Benefits Payable** | $ 1,161,690 | $ (27,514) | $ 1,134,176 |

| As of September 30<br>*(Amounts in thousands)* | Unaudited 2020<br>Liabilities | <br>(Assets Available to Pay Benefits) | <br>Unfunded Liabilities |
|---|---|---|---|
| **Other Benefits** | | | |
| Federal Employees' Compensation Act | $ 173,505 | $ – | $ 173,505 |
| Other | 957,523 | (37,778) | 919,745 |
| **Total Federal Employment Benefits Payable** | $ 1,131,028 | $ (37,778) | $ 1,093,250 |

Federal Employee Benefits Payable consist of FECA and other benefits.

Federal Employees' Compensation Act

The FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the DOL and consists of two components: the first component is based on actual claims paid by DOL but not yet reimbursed by the USMC and is included within the other liabilities balance on the balance sheet. The current portion of this liability represents amounts due in FY2022 and the non-current liability represents amounts owed beyond FY2022. There is generally a two to three-year lag between payment by the DOL and reimbursement from the USMC.

The second component is the actuarial liability included in this footnote schedule that represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is allocated between the USMC and Navy WCF-Marine Corps based on the number of civilian employees funded in each entity. USMC's workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL and are considered an unfunded liability.

Other Benefits, Other

The reported balance consists of accrued unfunded annual leave, employer contributions and payroll taxes payable, liabilities related to retirement benefits earned by military personnel not yet remitted to the MRF, and Voluntary Separation Incentive Pay (VSIP).

VSIP Authority, also known as "buyout" authority, is authorized by OPM and enables agencies that are downsizing or restructuring to offer employees lump-sum payments of up to $25 thousand, as an incentive to voluntarily separate.

## Note 12. Environmental and Disposal Liabilities

| As of September 30<br>*(Amounts in thousands)* | | Unaudited<br>**2021** | | Unaudited<br>**2020** |
|---|---|---|---|---|
| **Environmental Liabilities - Non-Federal** | | | | |
| Environmental Corrective Action | $ | 417 | $ | – |
| Environmental Closure Requirements | | 104,728 | | 98,531 |
| Asbestos | | 1,203,585 | | 68,205 |
| Non-Military Equipment | | – | | 22,829 |
| **Total Environmental and Disposal Liabilities** | $ | 1,308,730 | $ | 189,565 |

The USMC's asbestos liability increased by $1,135,380 thousand or 1664.7% as of September 30, 2021 due to the current year adoption of parametric methods for estimating asbestos removal and disposal costs. In addition to the asbestos methodology update, asbestos asset populations previously considered ineligible were added, and useful life classifications updated for conformance with DoD guidance, which also contributed to the increase in asbestos liabilities. The increase to asbestos related liabilities was recognized by the USMC as prior period adjustments from a change in accounting principle on the SCNP. The USMC also adopted DoN's position of not recognizing Other Environmental Liabilities (OEL) for GE as of FY2021, with the removal of the entire prior reported Non-Military Equipment OEL balance. This position was adopted after determining no need for non-routine hazardous waste removal from non-military equipment prior to disposal or submission to the Defense Reutilization Marketing Office.

Applicable Laws and Regulations for Cleanup Requirements

Laws and regulations that impact the USMC's environmental cleanup requirements include the Clean Air Act of 1970, the Resource Conservation and Recovery Act of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984; the Clean Water Act of 1977; and the Safe Drinking Water Act.

Description of the Types of Environmental Liabilities and Disposal Liabilities

USMC installations have current and ongoing Defense Environmental Restoration Program (DERP) event driven remediation activities occurring, which hold an associated liability. These remedial actions are funded, executed, tracked, and recorded by the U.S. Navy as the executive agent of the DoN. A percentage of the Environmental and Disposal Liability recorded in the U. S. Navy's Financial Statements is associated with DERP sites on USMC installations. In addition, the USMC was party to certain Base Realignment and Closure (BRAC) activities. The environmental restoration related to BRAC remediation is also recorded on the Navy's Financial Statements. The USMC associated DERP liability recorded in the Navy's financial statements is $685,720 thousand composed of 192 sites across 17 Installations and the associated BRAC liability recorded in the Navy's financial statements is $43,832 thousand composed of 15 sites across 3 Installations. See Navy's General Fund Financial Statement for additional information regarding DoN's Environmental and Disposal Liabilities.

OEL can stem from solid waste management unit cleanup; landfill closure; removal, replacement, retro fill, and/or disposal of polychlorinated biphenyl transformers; and underground storage tank remedial investigation and closure. The USMC collects estimated environmental liability costs, via the NAVFAC OEL Program, for units at active USMC installations that are not a part of either the DERP or BRAC programs. OEL estimates are developed from field data collected by knowledgeable persons at USMC installations.

The USMC's weapons systems utilize compounds, chemicals, and other hazardous materials for which the associated cleanup costs are routinely removed and disposed during the operating life of the system and the costs for disposing of those materials is expensed during the period incurred.

The USMC has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The USMC is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

Method for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The USMC expensed cleanup costs for non-asbestos properties placed in service prior to October 1, 1997. For the properties that were placed in service subsequently, the USMC expenses associated environmental costs using two methods: (1) physical capacity for operating landfills or (2) life expectancy (in years) for non-landfill assets. The USMC expenses the full environmental cost for Stewardship PP&E at the time the asset is placed in service.

For asbestos abatement, the USMC expensed the cleanup costs for properties placed in service prior to October 1, 2012 and recognizes the liability for asbestos remediation for subsequently constructed sites.

<u>Method for Estimating OEL - Non-DERP/Non-BRAC</u>
OEL estimates for non-asbestos abatement are based on the following:

- Detailed site studies;
- Cost of a future environmental liability study (for assets without an estimate);
- Historical references (e.g., prior projects, investigations, monitoring); and
- Current projects of comparable scope (similar sites).

Asbestos cleanup costs include required surveys, removal, and disposal of friable (immediate health threat) and non-friable (not an immediate health threat) asbestos-containing materials from real property. Asbestos containing assets can be Linear (e.g., facility pipeline systems) or Non-Linear (e.g., buildings). During FY2021 the DoN, reviewed and revised the USMC linear and non-linear asbestos estimating methodology to be consistent with other Federal agency practices. The type and quantity of asbestos present in a building is the primary factor in determining the cost liability of asbestos removal and disposal. The cost estimates for asbestos abatement and disposal are developed using data from a construction estimating database (RS Means), cost estimate information from asbestos survey reports, and manual OEL estimates. Buildings built after 1988 (1989 facility built date and later) were excluded from the estimates since they are presumed to be asbestos free due to the asbestos ban for use in buildings. All buildings built before 1989 (1988 facility built date and earlier) are presumed to have asbestos, and have estimates generated. All linear assets built after 1980 (1981 facility built date and later) were excluded from the estimates, since they are presumed to be asbestos free due to the ban on the use of asbestos in thermal systems insulation materials. All linear assets built before 1981 (1980 facility built date and earlier) are presumed to have asbestos, and have estimates generated.

<u>Unrecognized Cleanup Costs</u>
The unrecognized portion of cleanup costs is the unamortized portion of closure assets, asbestos, and unutilized landfill capacity. As of September 30, 2021, and 2020, there were $104,395 thousand and $89,710 thousand of unrecognized OEL, respectively.

<u>Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations</u>
Environmental liabilities can change over time because of changes in laws, regulations, technological advances, inflation, and changes to disposal plans. Costs for existing OEL estimates related to real property increased from applying the 2.0% inflation factor as of September 30, 2021, per the Unified Facilities Criteria DoD Facilities Pricing Guide. Regulatory changes did not affect OEL in FY2021.

## Note 13. Other Liabilities

| As of September 30<br>*(Amounts in thousands)* | Unaudited 2021 | | |
|---|---|---|---|
| | Current Liability | Non-Current Liability | Total |
| **Intragovernmental** | | | |
| Disbursing Officer Cash | $ 4,208 | $ – | $ 4,208 |
| Liabilities for Non-entity Assets | 99 | – | 99 |
| Other Liabilities | 59,372 | – | 59,372 |
| Total Intragovernmental Other Liabilities | 63,679 | – | 63,679 |
| **Other than Intragovernmental** | | | |
| Accrued Funded Payroll and Benefits | 725,841 | – | 725,841 |
| Advances from Others and Deferred Revenue | 4,042 | – | 4,042 |
| Deposit Funds and Suspense Accounts | – | – | – |
| Contract Holdbacks | 54,054 | 2,365 | 56,419 |
| Contingent Liabilities | 11,825 | – | 11,825 |
| Total Other than Intragovernmental Other Liabilities | 795,762 | 2,365 | 798,127 |
| **Total Other Liabilities** | $ 859,441 | $ 2,365 | $ 861,806 |

| As of September 30<br>*(Amounts in thousands)* | Unaudited 2020 | | |
|---|---|---|---|
| | Current Liability | Non-Current Liability | Total |
| **Intragovernmental** | | | |
| Disbursing Officer Cash | $ 5,063 | $ – | $ 5,063 |
| Liabilities for Non-entity Assets | 43 | – | 43 |
| Other Liabilities | 73,286 | – | 73,286 |
| Total Intragovernmental Other Liabilities | 78,392 | – | 78,392 |
| **Other than Intragovernmental** | | | |
| Accrued Funded Payroll and Benefits | 597,867 | – | 597,867 |
| Advances from Others and Deferred Revenue | 4,500 | – | 4,500 |
| Deposit Funds and Suspense Accounts | 61,731 | – | 61,731 |
| Contract Holdbacks | 38,457 | 14,637 | 53,094 |
| Contingent Liabilities | 13,038 | 400 | 13,438 |
| Total Other than Intragovernmental Other Liabilities | 715,593 | 15,037 | 730,630 |
| **Total Other Liabilities** | $ 793,985 | $ 15,037 | $ 809,022 |

Of the respective current liabilities reported, $51,766 thousand in FY2021 and $70,122 thousand in FY2020 represent amounts not covered by budgetary resources.

Intragovernmental Other Liabilities
The amount in this footnote represents the USMC's reimbursements owed to the DOL for the actual claims processed under the FECA. For more information refer to Note 11, *Federal Employee Benefits Payable*.

Disbursing Officers' Cash and Liabilities for Non-Entity Assets
Disbursing officers cash reported amount represents the liability to the Treasury for various forms of non-entity cash held by the USMC disbursing officers such as: cash on hand, cash on deposit at designated depositories, negotiable instruments, and foreign currencies.

The liabilities for non-entity assets balance includes the liability to the Treasury for disbursing officers' cash losses. Disbursing officers' cash is recognized as non-Federal cash and other monetary assets, and liabilities for non-entity assets are recognized as non-Federal accounts receivable at Note 2, *Non-Entity Assets*.

Accrued Funded Payroll and Benefits

The reported amount represents the estimated liability for salaries and wages of military and civilian employees and amounts of funded annual leave, all which have been earned but unpaid.

Advances from Others and Deferred Revenue

The balance represents funds received from non-Federal entities in advance of the delivery of goods or services by the USMC to those entities.

Deposit Funds and Suspense Accounts

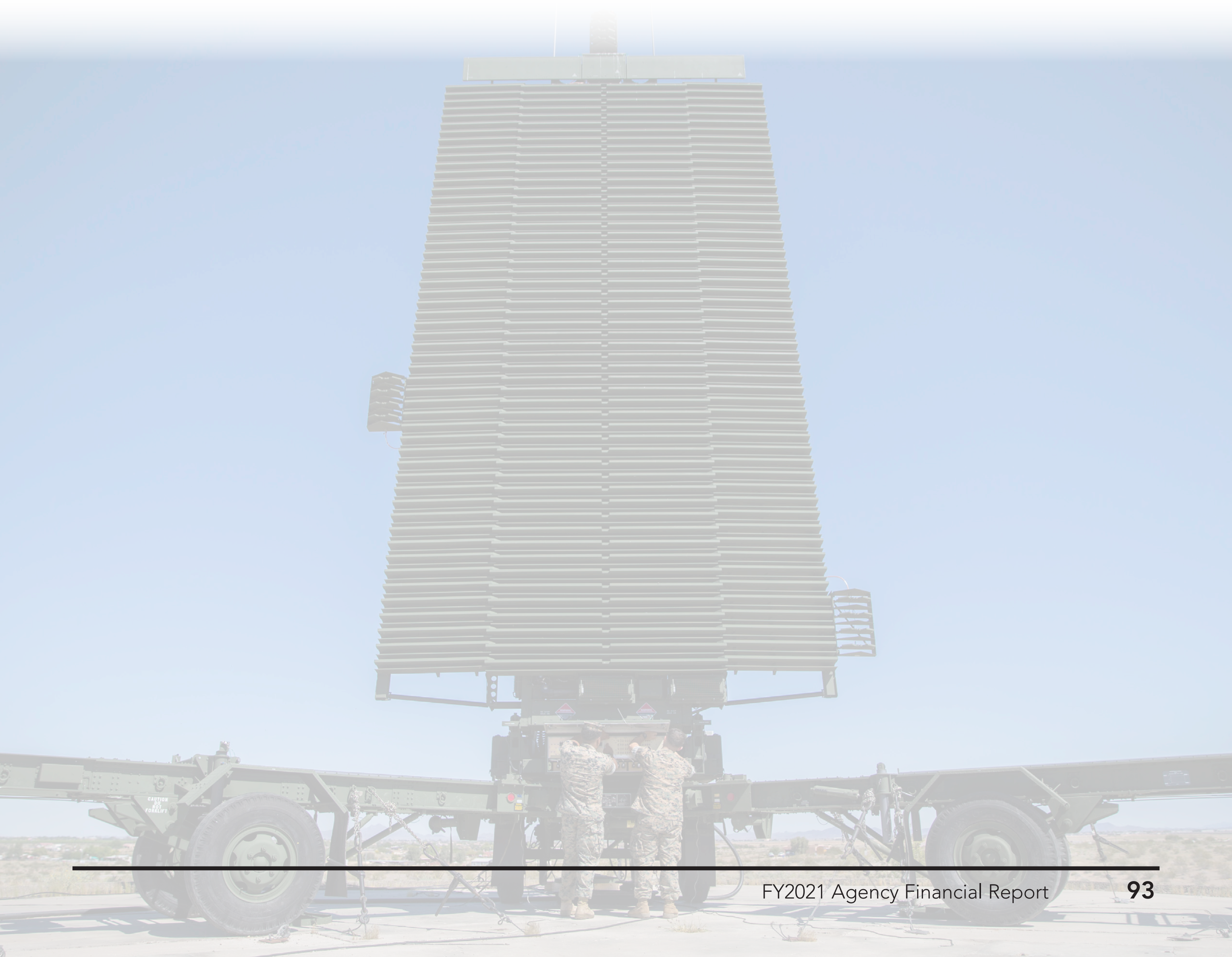
The amount reported represents the corresponding liability for receipts held temporarily in non-fiduciary deposit funds and any amounts in suspense accounts. Effective in FY2021, the determination was made that all non-entity deposit accounts will be reported in the U.S. Navy financial statements.

Contract Holdbacks

The amount reported represents a portion of the payments held back from vendors until the completion of contracts.

Contingent Liabilities

The amount reported represents contingent liabilities related to pending litigations and contractual arrangements. See Note 14, *Contingencies*, for more information on accrued probable contingencies.



## Note 14. Contingencies

Legal Contingencies

The USMC is a party in various administrative proceedings and legal actions related to claims for employment matters, real estate, environmental damage, intellectual property claims, and contractual bid protests, which may ultimately result in settlements or decisions adverse to the federal government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. The DoN's Office of General Counsel (OGC) and the Office of the Judge Advocate General (OJAG) reviews litigation and claims threatened or asserted involving the USMC to which lawyers devote substantial attention in the form of legal consultation or representation.

The USMC accrues contingent liabilities for legal actions where the DoN OGC and OJAG considers an adverse decision probable and the amount of loss measurable. The loss is reported in the contingent liabilities line within Note 13, *Other Liabilities*. For legal cases where an adverse decision is deemed reasonably possible, yet the amount of loss cannot be reasonably estimated, the USMC has disclosed the estimated range of loss in the tables below. The USMC also has certain litigations most of which relates to employment and civil cases, where an adverse decision is reasonably possible, but an estimate for the range of loss cannot be made.

In the event of an adverse judgment against the government, some of the liabilities may be payable from the U.S. Treasury's Judgment Fund. Also, adverse judgments may be payable from USMC resources, either directly or by reimbursement to the Judgment Fund.

Environmental Contingencies

The USMC environmental and disposal liabilities estimates are based on reasonable judgments and assumptions available at the time of calculation. The actual results may vary materially from the estimates if agreements with regulatory agencies require remediation to a different degree than originally anticipated. Further site investigation may also disclose contamination different to what was known when these estimates were made.

In FY2021, the contingent liability is related to uncertainty concerning real property closure costs with the estimated range in the tables below. The probable amount for real property closure costs are reported as "Environmental Closure Requirements" at Note 12, *Environmental and Disposal Liabilities*. In FY2020, the contingent liability was for asbestos abatement, which was subject to a methodology revision in FY2021 that no longer requires recognition of contingent liabilities.

Other Contingencies

Other contingencies represent contingent liabilities the USMC recognized related to existing contractual arrangements that may require future financial obligations.

Unaudited
**Contingent Losses**

| As of September 30, 2021<br>*(Amounts in thousands)* | Unaudited<br>**2021** | | |
|---|---|---|---|
| | **Accrued Liabilities** | **Estimate Ranges** | |
| **Legal Contingencies:** | | **Lower End** | **Upper End** |
| Probable | $ – | $ – | $ – |
| Reasonably Possible | $ – | $ 10,216 | $ 23,465 |
| **Environmental Contingencies:** | | | |
| Probable | $ 104,728 | $ 12,436 | $ 12,436 |
| **Other Contingencies:** | | | |
| Probable | $ 11,825 | $ 11,825 | $ 11,825 |

| As of September 30, 2020 *(Amounts in thousands)* | Unaudited 2020 | | |
|---|---|---|---|
| | Accrued Liabilities | Estimate Ranges | |
| **Legal Contingencies:** | | Lower End | Upper End |
| Probable | $ 400 | $ 400 | $ 400 |
| Reasonably Possible | $ – | $ 5,206 | $ 15,195 |
| **Environmental Contingencies:** | | | |
| Probable | $ 68,205 | $ 35 | $ 242,080 |
| **Other Contingencies:** | | | |
| Probable | $ 13,038 | $ 13,038 | $ 13,038 |

# Note 15. Funds from Dedicated Collections

## Balance Sheet — Funds from Dedicated Collections

| As of September 30<br>*(Amounts in thousands)* | Unaudited 2021<br>Wildlife Conservation, etc., Military Reservations | Unaudited 2020<br>Wildlife Conservation, etc., Military Reservations |
|---|---|---|
| **ASSETS** | | |
| Fund balance with Treasury | $ 1,556 | $ 1,421 |
| Total Assets | $ 1,556 | $ 1,421 |
| **LIABILITIES and NET POSITION** | | |
| Accounts Payable and Other Liabilities | $ 146 | $ 52 |
| Total Liabilities | 146 | 52 |
| Cumulative Results of Operations | 1,410 | 1,369 |
| Total Liabilities and Net Position | $ 1,556 | $ 1,421 |

## Statement of Net Cost — Funds from Dedicated Collections

| For the years ended September 30<br>*(Amounts in thousands)* | Unaudited 2021<br>Wildlife Conservation, etc., Military Reservations | Unaudited 2020<br>Wildlife Conservation, etc., Military Reservations |
|---|---|---|
| Gross Program Costs | $ 126 | $ 51 |
| Less: Earned Revenue | (167) | (127) |
| Net Cost of Operations | $ (41) | $ (76) |

## Statement of Changes in Net Position — Funds from Dedicated Collections

| For the years ended September 30<br>*(Amounts in thousands)* | Unaudited 2021<br>Wildlife Conservation, etc., Military Reservations | Unaudited 2020<br>Wildlife Conservation, etc., Military Reservations |
|---|---|---|
| Net Position, Beginning of the Period | $ 1,369 | $ 1,293 |
| Less: Net Cost of Operations | (41) | (76) |
| Change in Net Position | 41 | 76 |
| Net Position, End of Period | $ 1,410 | $ 1,369 |

Funds from dedicated collections are financed by specifically identified revenues and other financing sources and are provided to the government by non-Federal sources. The funds from dedicated collections are required by statute to be used for designated activities, benefits, or purposes that must be accounted for separately from the government's general revenues. The USMC's dedicated collections are generated from the "Wildlife Conservation, etc., Military Reservations, Navy" special fund.

<u>Wildlife Conservation, etc., Military Reservations, Navy 16 U.S.C. § 670</u>
This fund provides for the development and conservation of fish and wildlife and recreational facilities on military installations. Revenues come from user fees that are charged to individuals in exchange for fishing and hunting permits. The permits allow for hunting and fishing to take place on certain USMC installations. These programs are carried out through cooperative plans agreed upon by the local representatives of the Secretary of Defense, the Secretary of the Interior, and the appropriate agency of the state in which the installation is located.

## Note 16. Disclosures Related to the Statement of Net Cost

**Stewardship PP&E Obtained Through Transfer, Donation, or Devise**

Unaudited

**Stewardship PP&E through Transfers or Donation/Devise** *(in acres/physical units)*

| FY 2021 | Transfers-In | Donations/Devise | Transfers-out |
|---|---|---|---|
| Stewardship Land - in acres | – | – | – |
| Museum Collection Items (Objects, Fine Art) - in units | 5 | 44 | – |
| Museum Collection Items (Objects, Not Including Fine Art) - in units | 123 | 641 | (15) |
| Total | 128 | 685 | (15) |

The USMC does not appraise or assign value to incoming donations but makes a general assessment of value for the purposes of gift acceptance at the appropriate level.

Comparative prior year presentation is not included as tracking the stewardship PP&E source to facilitate the disclosure began in FY2021.

**Inter-Entity Costs**

The USMC has instances where goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with SFFAS No. 55, *Amending Inter-Entity Cost Provisions*, certain costs of the providing entity that are not fully reimbursed by the USMC are recognized as imputed costs in the SNC, and are offset by imputed financing sources in the SCNP. Such imputed costs and financing sources relate to (1) employee pension, post-retirement health, and life insurance benefits; and (2) losses in litigation proceedings settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in the USMC's financial statements.

## Note 17. Disclosures Related to the Statement of Budgetary Resources

### Undelivered Orders at the End of the Period

| As of September 30 *(Amounts in thousands)* | | Unaudited 2021 | | Unaudited 2020 |
|---|---|---|---|---|
| **Intragovernmental**: | | | | |
| Unpaid | $ | 45,907 | $ | 47,286 |
| Total Intragovernmental | | 45,907 | | 47,286 |
| **Other than Intragovernmental:** | | | | |
| Unpaid | | 8,811,605 | | 9,325,487 |
| Prepaid/Advanced | | 6,969 | | 8,117 |
| Total Other than Intragovernmental | | 8,818,574 | | 9,333,604 |
| **Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period** | $ | 8,864,481 | $ | 9,380,890 |

### Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation under law, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, and no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next FY for new obligations unless specific restrictions have been placed on those funds by law. Amounts in expired fund symbols are unavailable for new obligations but may be used to adjust previously established obligations.

### Permanent Indefinite Appropriations

The USMC has MERHCFs for active and reserve military personnel which are permanent indefinite appropriations. The mission of the MERHCF, administered by the Secretary of the Treasury, is to accumulate funds in order to finance, on an actuarially sound basis, liabilities of DoD under uniformed services health care programs for specific Medicare-eligible beneficiaries as designated by 10 U.S.C. §§ 1111 - 1117. The funds in MERHCF are used, in compliance with the law, to provide benefits for the Medicare-eligible member of a participating Military Service or other Uniformed Service entitled to retired or retainer pay and such member's Medicare-eligible dependents or survivors.

### Explanation of Differences between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government

Unaudited

| *(dollars in millions)* | Budgetary Resources | New Obligations & Upward Adjustments (Total) | Distributed Offsetting Receipts | Net Outlays |
|---|---|---|---|---|
| **Combined Statement of Budgetary Resources (9/30/2020)** | $ 31,652 | $ 30,230 | $ 35 | $ 27,737 |
| Shared Appropriations with DoN included in the SBR but excluded from USMC direct appropriations presented in the President's Budget | 1,347 | 1,192 | 35 | 880 |
| Unobligated Balance Brought Forward from expired and non-expiring years included in the SBR but not included in the President's Budget | 646 | – | – | – |
| Other | 1 | 1 | – | – |
| **Budget of the U.S. Government** | $ 29,658 | $ 29,037 | $ – | $ 26,857 |

The U.S. Government Budget amounts used in the reconciliation above represents the FY2020 balances. The U.S. Government Budget amounts for FY2021 will be available at a later date at https://www.whitehouse.gov/omb/budget/.

### Distributed Offsetting Receipts

Distributed offsetting receipts are amounts that an agency collects from the public or from other Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts (and other amounts).

## Note 18. Reconciliation of Net Cost to Net Outlays

| As of September 30<br>*(Amounts in thousands)* | Unaudited 2021<br>Intragovernmental | <br>With the public | <br>Total |
|---|---|---|---|
| **Net Cost of Operations (SNC)** | $ 7,502,681 | $ 23,374,653 | $ 30,877,334 |
| **Components of Net Cost That are Not Part of Net Outlays:** | | | |
| General Property, Plant, and Equipment, net changes | – | (304,646) | (304,646) |
| Increase/(decrease) in assets: | | | |
| Accounts Receivable, net | (10,564) | 5,710 | (4,854) |
| Other Assets | 32,670 | (1,673) | 30,997 |
| (Increase)/decrease in liabilities: | | | |
| Accounts Payable | (176,401) | 155,655 | (20,746) |
| Federal Employee Benefits Payable | – | (30,662) | (30,662) |
| Environmental and Disposal Liabilities | – | (1,119,165) | (1,119,165) |
| Other Liabilities | 789 | (129,228) | (128,439) |
| Other financing sources: | | | |
| Imputed Cost | (88,578) | – | (88,578) |
| **Total Components of Net Cost Not Part of Net Outlays** | (242,084) | (1,424,009) | (1,666,093) |
| **Components of Net Outlays Not Part of Net Cost:** | | | |
| Inventories and Related Property | – | (577,597) | (577,597) |
| **Total Components of Net Outlays Not Part of Net Cost** | – | (577,597) | (577,597) |
| **Miscellaneous Reconciling Items:** | | | |
| Other | (278,925) | (150,658) | (429,583) |
| **Total Other Reconciling Items** | (278,925) | (150,658) | (429,583) |
| **Total Net Outlays** | $ 6,981,672 | $ 21,222,389 | $ 28,204,061 |
| **Agency Outlays, Net (SBR)** | | | 28,831,224 |
| **Unreconciled Difference** | | | $ (627,163) |

| As of September 30<br>*(Amounts in thousands)* | Unaudited<br>**2020**<br>Intragovernmental | <br><br>With the public | <br><br>Total |
|---|---|---|---|
| **Net Cost of Operations (SNC)** | $ 7,295,436 | $ 20,672,923 | $ 27,968,359 |
| **Components of Net Cost That are Not Part of Net Outlays:** | | | |
| General Property, Plant, and Equipment, net changes | – | 1,892,605 | 1,892,605 |
| Increase/(decrease) in assets: | | | |
| Accounts Receivable, net | 3,003 | 1,313 | 4,316 |
| Other Assets | 24,873 | (8,569) | 16,304 |
| (Increase)/decrease in liabilities: | | | |
| Accounts Payable | 73,664 | (337,567) | (263,903) |
| Federal Employee Benefits Payable | – | (126,728) | (126,728) |
| Environmental and Disposal Liabilities | – | 1,365 | 1,365 |
| Other Liabilities | 719 | (16,656) | (15,937) |
| Other financing sources: | | | |
| Imputed Cost | (76,357) | – | (76,357) |
| **Total Components of Net Cost Not Part of Net Outlays** | 25,902 | 1,405,763 | 1,431,665 |
| **Components of Net Outlays Not Part of Net Cost:** | | | |
| Inventories and Related Property | – | (325,205) | (325,205) |
| **Total Components of Net Outlays Not Part of Net Cost** | – | (325,205) | (325,205) |
| **Miscellaneous Reconciling Items:** | | | |
| Other | – | – | – |
| **Total Other Reconciling Items** | – | – | – |
| **Total Net Outlays** | $ 7,321,338 | $ 21,753,481 | $ 29,074,819 |
| **Agency Outlays, Net (SBR)** | | | 27,772,276 |
| **Unreconciled Difference** | | | $ 1,302,543 |

The FY2020 reconciliation was modified to conform to the FY2021 presentation.

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the USMC's Net Cost of Operations, reported on an accrual basis on the SNC, and Net Outlays, reported on a budgetary basis on the SBR. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the USMC's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the USMC. Outlays are payments to liquidate an obligation.

As disclosed in Note 1, the USMC currently has not implemented the policies, procedures, internal controls and systems to ensure that our financial statements comply with the reporting requirements to completely and accurately reconcile our budgetary and proprietary records. For example, the unreconciled difference of $627,163 thousand in FY2021 and $1,302,543 thousand in FY2020 is due to deviations from the Treasury recommended crosswalk for generating line items within this footnote. Also certain amounts presented in the reconciliation may not directly align with the USMC balances presented in the Balance Sheet. These differences may result from mapping deviations and/or balance sheet activity in the current year that does not impact net cost or net outlays and are therefore excluded from this reconciliation.  Efforts are underway to address the crosswalk deviations and resulting unreconciled differences during FY2022.

Components of net cost not related to net outlays include depreciation expense, which is an allocation of expenses over multiple reporting periods. Other significant adjustments relate to accounts receivable, other assets, accounts payable, environmental and disposal liabilities, and other liabilities line items. The analysis and related explanations below illustrate this reconciliation by listing the key differences between net cost and net outlays.

"General property, plant, and equipment, net changes - With the public" activity in FY2021 presents an overall decrease, whereas the FY2020 activity was an overall increase, and as a result, the year over year activity represents a decrease of $2,197,251 thousand or 116.1%.  The FY2021 decrease in activity primarily resulted from the year-end process to update the Plant Replacement Value (PRV) and PISD associated with RP assets and removal of 3,300 ME assets due to re-baselining of the ME population and the institution of new business rules. The FY2020 increase in activity was attributable to correction of errors and remediation of deficiencies found in the PP&E accounts.

"Environmental and disposal liabilities - With the public" activity increased by $1,120,530 thousand or 82090.1%. Effective in FY2021, the DoN reviewed and revised the USMC linear and non-linear asbestos estimating methodology to be consistent with other Federal agency practices, included asbestos asset populations previously considered ineligible, and updated useful life classifications to conform with DoD guidance which resulted in the increase in activity for the current year.

"Accounts Payable - Intragovernmental" activity increased by $250,065 thousand or 339.5%. The increase is due to improved efforts to recognize intragovernmental liabilities related to reimbursable work orders with other Federal trading partners that has impacted the reported liability activity in FY2021 compared to the prior year activity.

"Accounts Payable - With the public" activity decreased by $493,222 thousand or 146.1%. The activity in FY2021 is less than the activity in FY2020 due to a lesser liability amount recognized in FY2021 from the AP accrual methodology than the amount recorded in FY2020 for the same period.  The AP accrual methodology over contracts was developed and implemented in FY2020, and over the year, the precision of the estimation process was refined based on continued look back testing performed.

"Federal Employee Benefits Payable - With the public" activity year-over-year decreased by $96,066 thousand or 75.8%. This fluctuation is due to a lower liability balance in the current year from the increase in leave taken in FY2021 compared to FY2020 as a result of the easing of the Coronavirus Disease 2019 (COVID-19) pandemic restrictions.

"Other Liabilities - With the public" year over year activity increased by $112,572 thousand or 675.9%. The overall increase in FY2021 is primarily due to an increased liabilities balance in accrued funded payroll and benefits.

Components of net outlays not related net cost primarily include OM&S acquired throughout the year. Significant variances in relation to these adjustments are explained below.

"Inventories and related property - With the public" continued to decrease in FY2021 and FY2020 with a greater decrease of amounts in FY2021 by $252,392 thousand or 77.6%. This fluctuation is attributable to the continuing various remediation efforts undertaken to establish the OM&S baseline.

"Other - Intragovernmental miscellaneous reconciling items" increased by $278,925 thousand due to transfer-in activity without reimbursement for GPP&E activity.

"Other - With the public miscellaneous reconciling items" increased by $150,658 thousand, due to gains and losses and prior period adjustments recorded related to GPP&E remediation activity.

# Note 19. Public-Private Partnerships

Congress established the Military Housing Privatization Initiative (MHPI) in 1996 as an alternative method to help the military improve the quality of life for its military members. By using the expertise and tools afforded to private companies, the condition of Marine Corps military housing improved more expediently and effectively than the traditional Military Construction process would allow. 10 U.S.C. §§ 2871-2885 codified the Service Secretaries' MHPI authority, as modified by P.L.116-92, Title XXX - Military Housing Privatization Reform (10 U.S.C. §§ 2871-2894a).

The Office of the Secretary of the Navy delegated MHPI authority to the NAVFAC, which authorized NAVFAC to enter into agreements with eligible entities from the private sector on behalf of the Marine Corps. NAVFAC selected partners through a competitive process with the intent to demolish, construct, renovate, maintain, and operate family housing for the Marine Corps.

The Marine Corps possesses the following authorities to assist in the execution of P3: direct loans and loan guarantees (10 U.S.C. § 2873), rental guarantees (10 U.S.C. § 2876), differential lease payments (10 U.S.C. § 2877), contributions (10 U.S.C. §§ 2875 and 2883), and the conveyance or leasing of land, housing, and other facilities (10 U.S.C. §§ 2875 and 2878). Based on these authorities, and after careful analysis and consideration, the Marine Corps elected to enter MHPI P3s by providing appropriated funds to the DoD MHPI program, conveying Marine Corps real property assets to the selected public partners and long-term leases of the underlying land, and the use of direct loans from DoD MHPI.

Detailed reports to the appropriate congressional committees on the MHPI projects are required by 10 U.S.C. § 2884 for each project, conveyance, or lease proposed; as a part of the annual budget submission; and as an annual report concerning the status of oversight and accountability. Additionally, the House Report (H.R.) 116-63, Page 23-24, accompanying H.R. 2745, the Department of Defense Appropriations Bill, 2020, directs the Service Secretaries to submit a report to the congressional defense committees detailing: (1) how the Services monitor privatized facilities at a national level and (2) any planned upgrades to this system to improve transparency.

The expected life of each MHPI arrangement corresponds to the duration of the ground lease (generally 50 years). Negotiations between NAVFAC on behalf of the Marine Corps and the private partners established the duration of the ground lease based on the minimum duration required to ensure project success.

Responsibilities

The non-government Managing Member (also referred to as the Partner) is responsible for the management of the MHPI entity with the goal of providing adequate housing to Marine Corps military members that choose to reside in these facilities for rents set equal to the area housing allowance. In the National Defense Authorization Act for FY2020, P.L. 116-92, Title XXX - Military Housing Privatization Reform, Congress provided notional standards and definitions for adequate housing (the Services' condition assessments shall utilize private sector housing industry construction codes and sizing standards as a basis for assessing inventory adequacy), and initiated the process to establish tenant rights and responsibilities for all DoD MHPI housing. In general, the MHPI entities are to provide services, which include the management, maintenance, and operations of the facilities over the life of the operating agreement (OA). The Partner has sole and exclusive management and control over the MHPI entity. The Marine Corps will not take part in the day-to-day management of the MHPI.

Funding

Contributions from the DoD MHPI program and the Partner typically occur at the beginning of any new project, as required by the OA. During Phase I, the initial development phase, the Marine Corps entered into long-term ground leases (generally 50 years) and conveyed the associated real property assets (buildings, structures, and facilities) to the MHPI P3, organized as a Limited Liability Company (LLC). The Marine Corps provided a nominal amount of funding to DoD Family Housing Improvement Fund (FHIF). Once the Marine Corps funds were in the FHIF, the DoD MHPI program made direct cash contributions and loans to the LLCs at Marine Corps' request.

Cash contributions to MHPI P3 Partners from the DoD FHIF requires Congressional notification (10 U.S.C. § 2883(f)). There are no contractual requirements for additional federal contributions to the LLCs. The Marine Corps has not made any in-kind contributions/services or donations to the MHPI entities.

The Marine Corps is not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF and has not made any such additional capital contributions, loans, or loan guarantees to the MHPI P3s. Funds to support the operations of the MHPI P3s comes from the initial capital contributed by the Marine Corps and the Partners and rental revenue received from the tenants. The Partner secures any debt incurred by the MHPI entity. The Marine Corps does not guarantee any debts incurred by the MHPI entity.

In response to certain prior downward adjustments to the housing allowance that were determined to be excessive, Congress enacted P.L. 115-91 § 603. This law requires the Marine Corps to supplement the housing allowances of the military members residing in the facilities by making direct payments to the MHPI entities (lessors) of 1% of the Basic Allowance for Housing (BAH) amount for the period 01 January - 31 December 2018. The amount of BAH was calculated under section 403(b)(3)(A)(i) of the military pay statute in Title 37, U.S.C. for the area in which the covered housing existed. From 01 September 2018 to 31 December 2019, P.L.115-232 § 606 directed that payments to the MHPI entities of 5% of BAH be made monthly.

From 01 January 2020 forward, P.L.116-92 §§ 3036 and 3037 directs that payments to the MHPI entities of 2.5% of BAH will occur monthly for all MHPI entities. Additionally, "underfunded" projects may receive up to an additional 2.5% of BAH monthly at the determination of the Chief Housing Officer of the DoD and Secretary of the Navy until Congress modifies or rescinds this direction.

The following table represents the current FY USMC transactions in support of the MHPI Program and LLCs/Limited Partnerships (LPs) through 30 September 2021:

| **FY2021 USMC Transactions through 30 September 2021** *($ in thousands)* | | |
|---|---|---|
| USMC cash transfers to DoD FHIF/Military Unaccompanied Housing Improvement Fund (MUHIF) | $ | – |
| Real property contributions to the MHPI LLCs/LPs (value of Real Property Assets (RPA) conveyed, per MHPI audited financial statements) | $ | – |
| USMC direct payments to MHPI LLCs/LPs as required by § 603 and § 606 (a)(1) (actuals) (Note 1) | $ | 10,072 |
| USMC direct payments to MHPI LLCs/LPs as required by § 606 (a)(2) (actuals) (Note 2) | $ | 9,401 |
| USMC direct payments to MHPI LLCs/LPs as required by § 606 (a)(3) (actuals) (Note 3) | $ | – |
| USMC direct payments to MHPI LLCs/LPs as required by § 603 and § 606 (a)(1),(a)(2), and (a)(3) (current liability for invoices received as of 30 September 2021 but not yet paid) (Note 4) | $ | 3,341 |
| USMC indirect third party payments to MHPI LLCs/LPs (Notes 5 and 6) | $ | 492,443 |

Note 1: *P.L. 115-91 § 603 and P.L. 115-232 § 606 (a)(1).*

Note 2: *P.L. 115-232 § 606 (a)(2) (as established by P.L. 116-92 §§ 3036 and 3037).*

Note 3: *P.L. 115-232 § 606 (a)(3) (as established by P.L. 116-92 §§ 3036 and 3037).*

Note 4: *P.L. 115-91 § 603 and P.L. 115-232 § 606 (a)(1)(a)(2), and (a)(3) (as established by P.L. 116-92 §§ 3036 and 3037).*

Note 5: *BAH provided under section 403 of title 37 to Military Members living in privatized housing.*

Note 6: *The number of military family housing units upon which these estimated payments were made is 19,643 units in FY2021. The number of units of military unaccompanied housing upon which these estimated payments were made is $0 in FY2021.*

The following table represents the cumulative USMC transactions in support of the MHPI Program and LLCs/LPs through 30 September 2021:

| **Cumulative USMC Transactions through 30 September 2021** *($ in thousands)* | | |
|---|---|---|
| USMC cash transfers to DoD FHIF/MUHIF (Note 7) | $ | 1,187,125 |
| Real property contributions to the MHPI LLCs/LPs (value of RPA conveyed, per OMB scoring documents) | $ | 751,706 |
| USMC direct payments to MHPI LLCs/LPs as required by § 603 and § 606 (a)(1) (actuals) (Note 1) | $ | 47,869 |
| USMC direct payments to MHPI LLCs/LPs as required by § 606 (a)(2) (actuals) (Note 2) | $ | 20,312 |
| USMC direct payments to MHPI LLCs/LPs as required by § 606 (a)(3) (actuals) (Note 3) | $ | – |
| USMC direct payments to MHPI LLCs/LPs as required by § 603 and § 606 (a)(1),(a)(2), and (a)(3) (current liability for all invoices received as of 30 September 2021 but not yet paid) (Notes 4 and 8) | $ | 3,340 |
| USMC indirect third party payments (BAH provided under section 403 of title 37 to members living in privatized housing) to MHPI LLCs/LPs (Notes 9 and 10) | | UNK |

Note 7: *The USMC funding transfers were amounts necessary to establish the program or correct shortfalls in commitments to have housing allowances reflect local market conditions and are not expected to be recovered by the USMC. The real property contributions similarly were fully depreciated or are expected to be fully depreciated over the life of the arrangements and are not expected to have a material book value upon their return at the end of the land lease. Accordingly, no amounts are reflected in the FY2021 USMC General Fund Balance Sheet for the assets transferred to the MHPI P3s.*

Note 8: *As provided in SFFAS No. 49, para 24.b, any potential future payments beyond the current liabilities reflected above are not estimable and are therefore not provided. This is due to there being no contractual requirement to make additional payments and the uncertainty associated with Congressional action in this area over the last two years, and the projected revision to the DoD policy governing Section 606(a)(2) and (3) payment authorizations in FY2022.*

Note 9: *As provided in SFFAS No. 49, para 24.b, the cumulative BAH amounts are not readily available nor supportable, therefore no estimate of the cumulative amount of BAH is provided. This disclosure requirement did not exist until FY2019, and USMC has no way of recreating or estimating BAH payments made to individuals living in MHPI housing from program inception in FY1996 through FY2018. USMC will report annual BAH amounts as a part of this disclosure on a go forward basis.*

Note 10: *As provided in SFFAS No. 49, para 24.b, USMC does not estimate the future amount of BAH to be paid to MHPI entities. This is due to the uncertainties associated with the number of members residing in MHPI housing year over year, the paygrade mix of members residing in MHPI housing, and the potential changes in the BAH rates which occur in the annual National Defense Authorization Acts and which are implemented through annual appropriations to the USMC. Further, it is a discretionary choice on the part of individual Service Members to live in MHPI housing. Service Members may choose to spend their BAH in MHPI housing, non-MHPI housing, or purchase housing. There is no commitment or guarantee on the part of the USMC to any MHPI entity to ensure a minimum number of military residents in MHPI housing.*

The following table represents the current year DoD transactions in support of the USMC MHPI Program and LLCs/LPs through 30 September 2021:

| **FY2021 DoD Transactions through 30 September 2021** *($ in thousands)* **(Note 11)** | | |
|---|---|---|
| DoD cash disbursements from the FHIF/MUHIF to MHPI LLCs/LPs | $ | – |
| DoD government direct loans from the FHIF to MHPI LLCs/LPs | $ | – |

The following table represents the cumulative DoD transactions in support of the USMC MHPI Program and LLCs/LPs through 30 September 2021:

| **Cumulative DoD Transactions through 30 September 2021** *($ in thousands)* **(Note 11)** | | |
|---|---|---|
| DoD cash disbursements from the FHIF/MUHIF to MHPI LLCs/LPs | $ | 1,157,720 |
| DoD government direct loans from the FHIF to MHPI LLCs/LPs | $ | 29,400 |

Note 11: *The financial amounts represented above are presented in the DoD's consolidated financial statement and their respective note disclosures and are not presented within the USMC's financial statements.*

Neither the Marine Corps nor the DoD are expected to make any additional cash contributions, loans, or conveyance of real property to the LLCs after October 1, 2021 through the end of the P3 arrangements.

Non-Federal funding for the MHPI arrangements generally includes direct cash contributions from the private partner, land contributions upon which new housing was constructed, and either bonds or loans obtained by the LLC.

The following table represents the current year MHPI Managing Member (Private Partner) contributions to the MHPI LLC/LP as reported on the books of the MHPI during the entity's FY and reported through 30 September 2021:

| **FY2021 MHPI Managing Member Contributions to the MHPI LLC/LP through 30 September 2021** *($ in thousands)* | | |
|---|---|---|
| Cash contribution to MHPI LLCs/LPs by Managing Member | $ | 4,779 |
| Value of real property and land contributed to MHPI LLCs/LPs by Managing Member | $ | – |

The following table represents the current year transactions of the MHPI LLC/LP as reported on the books of the MHPI during the entity's FY and reported through 30 September 2021:

| **FY2021 MHPI LLC/LP Transactions through 30 September 2021** *($ in thousands)* | | |
|---|---|---|
| Bonds or construction loans obtained by MHPI LLCs/LPs | $ | – |
| Value of real property assets donated to USMC by MHPI LLC/LP | $ | – |
| Cash transferred to USMC by MHPI LLC/LLP | $ | – |
| Govt Direct Loan repayments made by the MHPI LLCs/LPs to DFAS | $ | 932 |

The following table represents the cumulative MHPI Managing Member (Private Partner) contributions to the MHPI LLC/LP as reported on the books of the MHPI during the entity's FY and reported through 30 September 2021:

| **Cumulative MHPI Managing Member Contributions to MHPI LLC/LP through 30 September 2021** *($ in thousands)* | | |
|---|---|---|
| Cash contribution to MHPI LLCs/LPs by Managing Member | $ | 46,766 |
| Value of real property and land contributed to MHPI LLCs/LPs by Managing Member | $ | – |

The following table represents the cumulative transactions of the MHPI LLC/LP as reported on the books of the MHPI during the entity's FY and reported through 30 September 2021:

| **Cumulative MHPI LLC/LP Transactions through 30 September 2021** *($ in thousands)* | | |
|---|---|---|
| Bonds or construction loans by MHPI LLCs/LPs balance outstanding | $ | 2,180,685 |
| Value of real property assets donated to USMC by MHPI LLC/LP since 2019 | $ | – |
| Cash transferred to USMC by MHPI LLC/LLP | $ | – |
| Govt Direct Loan Outstanding Balance | $ | 14,791 |
| Govt Direct Loan repayments made by the MHPI LLCs/LPs (Note 12) | $ | 14,609 |

Note 12: *Final loan repayment due through December, 2040.*

There is no requirement for the private partners to make any additional contributions after October 1, 2021 through the end of the arrangements (approximately through 2050) except for the De Luz project which has a private partner's monthly contribution of $531 thousand scheduled through December, 2022. The MHPI entities have not borrowed or invested capital based on the Marine Corps' promise to pay, either implied or explicit.

Risk of Loss and Expectation of Gain

The DoD's risk of loss is the initial cash contribution to the program; the Marine Corps' risk is failure to deliver quality housing services to Marine Corps Military personnel. The private partner's risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. Each MHPI OA prescribes a revenue flow "waterfall" during the life of the arrangement and upon liquidation of the arrangement. These waterfalls generally allow the Managing Partner an opportunity to earn incentives and returns for economic performance after providing a set aside of capital for the maintenance of the facilities. Should monies exist in excess of the required reserves securing or repaying the debt, the required reserves for maintenance of the facilities, and the contractual incentive payments to the Managing Partner, the excess would be returned to the FHIF at entity dissolution.

The MHPI OAs do not explicitly identify risk of loss contingencies.

The MHPI entity cash flow is dependent on congressional authorization and appropriation of BAH, which becomes a third-party payment for rent to the MHPI entity. The Marine Corps can influence but cannot control the authorization and appropriation process. Additionally, because of ongoing congressional review of the MHPI program, there may be changes to the relationship between the Marine Corps and the entity based on congressional action. In the event action is taken, the Marine Corps will disclose any related financial changes or impacts. This is potentially a remote occurrence that is not measurable at this time. Conversely, there is no expectation that the market-based rent to be received by the MHPI P3s would be sufficient to cover operating expenses, debt service, remuneration of the Managing Partner, and have any excess return to provide the DoD or the Marine Corps as a part of ongoing operations.

Risk of Termination or Non-Compliance

The conditions governing the early termination, hand-back, and renewal options vary from MHPI arrangement to MHPI arrangement. If a going-concern, termination, or default occurs, the Marine Corps will conduct procedures to mitigate risk and to identify an entity to take over the partnership. Each MHPI OA provides for orderly processes for dissolution or termination of the arrangement to include the sale of assets not on Marine Corps land and the transfer of real property assets to the Marine Corps. The OAs also provide processes through which the Marine Corps can enter into successor arrangements in cases where the current private partner is no longer a member of the MHPI arrangement, thereby avoiding early termination of the project.

In some instances, the Marine Corps provides utility services to the housing area operated by the LLC. The LLC is contractually and statutorily required to provide reimbursements for utility services provided by the Marine Corps.

## Note 20. Disclosure Entities

The USMC's NAFIs are established by DoD policy and are intended to enhance the quality of life of uniformed services members, retired members, and dependents of such members, and to support military readiness, recruitment, and retention. NAFI financial activity is not included in the USMC financial statements. The USMC maintains the title for fixed assets consisting of buildings and building improvements purchased using NAF for the exclusive use of NAFI operations. As of September 30, 2021, and 2020, the USMC held title to such fixed assets included in the USMC's financial statements totaling $414,822 thousand and $337,608 thousand, respectively.

NAFIs are generally governed by the DoD Instruction 1015.15, Establishment, Management, and Control of Non-Appropriated Fund Instrumentalities and Financial Management of Supporting Resources and are identified according to Program Groups as noted below.

**Marine Corps Community Services**

Marine Corps Community Services (MCCS) is the name for the consolidated operations of the USMC's Morale, Welfare, and Recreation (MWR) and Exchange Services programs operated for the benefit of authorized patrons of the Marine Corps and DoD. MCCS NAFIs in the field provide active duty military and other authorized patrons around the world with goods and services necessary for their health, comfort and convenience. Services provided include well-rounded, wholesome, athletic recreation to ensure their mental, physical and social well-being, and dining and entertainment services.

The Headquarters element of MCCS is comprised of the Business and Support Services Division and the Marine and Family Programs Division, both overseen by the Deputy Commandant for Manpower and Reserve Affairs. NAFIs are subject to directives issued by the DoD and the CMC. The NAFIs are mostly self-supporting. The NAFIs receive program guidance from the two Divisions at Headquarters in order to provide standardized types of services. In accordance with DoD policy, the USMC has established an advisory group for NAFIs. The advisory group, the MCCS Board of Directors, chaired by the Deputy Commandant, Programs and Resources, ensures that the MCCS NAFIs are responsive to authorized patrons and to the purposes for which the NAFIs were created.

MCCS NAFIs are subject to financial audits conducted by an independent public accounting firm and have a history of clean audits. MCCS NAFIs report on the retail FY, which ends on the Saturday nearest January 31. Funds appropriated to DoD and available for MWR programs are authorized by 10 U.S.C. § 2491 to be converted to NAF via the Uniform Funding Management practice and thereafter treated as NAFs and expended in accordance with laws applicable to NAF. As of September 30, 2021, and 2020, MCCS NAFIs received $462,924 thousand and $527,936 thousand, respectively, in appropriated fund (APF) support under law and policy.

MCCS NAFIs have a low risk exposure based on the Standard & Poor's annual credit rating which views MCCS NAFIs' financial policy to be very conservative based on low debt burden and relatively consistent credit metrics. MCCS NAFIs' credit rating, as of May 2021 is AA-/Stable/NR.

The MCCS NAFIs consist of Program Group I - Military MWR Programs and Program Group II - Armed Services Exchange NAFIs.

**Other NAFIs**

Other miscellaneous NAFIs authorized by DoD and USMC policy operate outside the MCCS organization. These miscellaneous NAFIs are not included in the MCCS financial reporting but are subject to audit by the Marine Corps Non-Appropriated Fund Audit Service. Other NAFIs include Program Group III - Civilian MWR Programs and Program Group IV - Lodging Program (Billeting), and Program Group V - Supplemental Mission Funds.

## Note 21. COVID-19 Activity

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) was enacted in FY2020 to provide emergency assistance and healthcare response to those impacted by COVID-19. The DoD CARES Act spend plan outlined funding for immediate, critical COVID-19 response requirements for distinct DoD mission priorities, which specific to the USMC pertains to Safeguard our National Security Capabilities.

As the global COVID-19 pandemic continues to affect the nation and the world, the USMC continues to be proactive in taking steps to protect the military, civilians, and families through the following key objectives: Maintain Readiness, Protect the Force, and Prevent Loss of Essential Functions. In FY2021, the USMC budgetary funding to address COVID-19 response was solely comprised of $99,651 thousand from USMC base appropriations, which represents a $162,826 thousand or 62.0% decrease in funding in comparison to the prior year. USMC budgetary funding to address COVID-19 in FY2020 was $262,477 thousand, comprised of $196,077 thousand from DoD CARES Act funding, and $66,400 thousand from USMC base appropriations. Budgetary resources represented annual funding that will expire on the last day of availability. The summary of funding sources and use by key USMC operations is detailed in the table below.

| As of September 30<br>*(Amounts in thousands)* | 2021 | | |
|---|---|---|---|
| **Activity** | **Budgetary Resources** | **Obligations Incurred** | **Remaining Resources Available** |
| Military Personnel | $ 65,534 | $ 65,534 | $ – |
| Reserve Personnel | 1,940 | 1,940 | – |
| Operation & Maintenance | 32,177 | 32,177 | – |
| Total | $ 99,651 | $ 99,651 | $ – |

| *As of September 30*<br>*(Amounts in thousands)* | 2020 | | |
|---|---|---|---|
| **Activity** | **Budgetary Resources** | **Obligations Incurred** | **Remaining Resources Available** |
| Military Personnel | $ 42,119 | $ 42,119 | $ – |
| Reserve Personnel | 303 | 303 | – |
| Operation & Maintenance | 220,055 | 220,055 | – |
| Total | $ 262,477 | $ 262,477 | $ – |

The diverse range of activities executed by the USMC in response to COVID-19 exceeded the CARES Act funding by approximately $166,051 thousand, which were supplemented from USMC base appropriations. Subsequently, no residual budgetary resources for COVID-19 remains available beyond FY2021. COVID-19 funding was used across all USMC operations, to maintain facilities and operations through the following activities:

- NAF support
- Restriction of movement measures and quarantine implementation
- Enhanced sanitation efforts
- IT service enhancement in support of remote work and physical distancing efforts
- Supply of personal protective equipment
- Measures to mitigate impacts at recruit training depots
- Recruiting enhancements to maintain quotas

COVID-19 related expenses increased gross program costs reported within the USMC by $99,651 thousand as of September 30, 2021 and $262,477 thousand as of September 30, 2020 consisting of contract services, supplies, and travel. Refer to Note 18, *Reconciliation of Net Cost to Net Outlays* for the impact of COVID-19 on the unfunded annual leave liability variance. Refer to Note 20, *Disclosure Entities*, for funding support provided to the NAF activities.

*Unaudited, see accompanying Independent Auditor's Report.*

## Real Property Deferred Maintenance and Repairs

The USMC maintains real property assets such as buildings, aviation runways, roads, communication stations, and weapons ranges to support its mission. M&R for real property assets that were not performed when they should have been or were scheduled and delayed for a future period are considered DM&R. Prioritization of maintenance needs are assigned based on the asset impact to mission-critical functions, health and safety, and quality of life. DM&R assessments are performed over all real property type categories without any exclusions (i.e. capitalized; non-capitalized; fully depreciated).

The following table shows the USMC's real property DM&R as of September 30, 2021:

| Real Property Deferred Maintenance as of September 30, 2021 *(Amounts in thousands)* | | |
|---|---|---|
| **Property Type** | **Beginning DM&R Balance** | **Ending DM&R Balance** |
| 1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities) | $ 12,482,160 | $ 12,828,738 |
| 2. Category 2: Buildings, Structures, and Utilities (Heritage assets) | 1,329,084 | 1,414,426 |
| 3. Category 3: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement) | – | – |
| **Total** | **$ 13,811,244** | **$ 14,243,164** |

Description of Property Type categories:

- Category 1 - Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, excluding multi-use Heritage Assets
- Category 2 - Buildings, Structures, and Utilities that are Heritage Assets, including multi-use Heritage Assets
- Category 3 - Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, excluding multi-use Heritage Assets

The primary factor considered in determining acceptable condition of real property asset is whether an asset is in a condition to be effectively used for its designated functional purpose. Assets that do not meet this criterion are considered to have DM&R. M&R needs of real property assets are identified primarily through the condition assessment process, which is conducted on a recurring basis depending on the asset type. All buildings, paving, bridges, and dams are inspected using the Sustainment Management Systems methodology developed by the U.S. Army Corps of Engineers Civil Engineering Research Laboratory, which provides a facilities condition index (FCI) for these assets. Other assets are assessed via local facility inspections to examine the adequacy of the facilities to meet its intended purpose. Assets inspected using both methods take the FCI to determine the asset's quality rating as follows: Q1 (Good - FCI: 100%-90%); Q2 (Fair - FCI: 90%-80%); Q3 (Poor - FCI: 80%-60%); and Q4 (Failing - FCI: less than 60%).

The USMC follows the Office of the Secretary of Defense Installation Strategic Plan goal of having facilities at a Q2 level on average. This represents an average level of 20% of PRV as an acceptable level of deferred maintenance. The DM&R values in the table above represent approximately 14.47% and 22.66% of PRV for categories 1 and 2, respectively. The percentage for category 3 is zero because the USMC does not hold deferred maintenance backlogs on facilities to be demolished.

## General Equipment Deferred Maintenance and Repairs

The USMC's GE consists primarily of equipment used to execute battlefield missions, referred to as ME, and property to support operations of installations and its tenant activities, referred to as Garrison Mobile Equipment (GME) and GP. The Marine Corps does not have ME, GME, or GP that are considered to be heritage assets. The GE DM&R includes fully depreciated assets but does not include non-capitalized assets. DM&R is a result of funding shortfalls, shift in funding priorities, personnel limitations, and/or parts availability constraints.

The following table provides the USMC's GE DM&R as of September 30, 2021:

| General Equipment Deferred Maintenance as of September 30, 2021 *(Amounts in thousands)* | | |
|---|---|---|
| **GE DM&R Category** | **Beginning DM&R Balance** | **Ending DM&R Balance** |
| Communications - Electronics | $ 15,719 | $ 12,743 |
| Engineer | 76,100 | 58,289 |
| General Supply | 8,682 | 15,609 |
| Motor Transport | 287,356 | 322,967 |
| Ordnance | 341,634 | 384,763 |
| Garrison Mobile Equipment (GME) | 104 | 389 |
| Garrison Property (GP) | $ – * | $ 336 |
| **Total** | **$ 729,595** | **$ 795,096** |

*The USMC began reporting DM&R for Garrison Property in FY2021.

**Military Equipment DM&R**
The primary factor considered in determining the acceptable condition of an ME asset is the amount of repair required to maintain or bring an asset back to an issue-ready conditional status to be effectively used for its designated functional purpose. Each ME has a corresponding technical manual that specifies how maintenance procedures are to be performed if an asset is non-mission capable or degraded. When the routine M&R procedures will not be performed in the current period, an asset is assigned the DM&R status.

The USMC deferred maintenance programs for ME consist of Administrative Deadline Program (ADL), Administrative Storage Program (ASP), and unfunded M&R for assets located at a Remote Storage Activities (RSA). The ME assets assigned to Fleet Marine Forces are enrolled into either ADL or ASP depending on the level of degradation. RSA includes assets transferred to depot-level maintenance for which corrective maintenance could not be performed due to various reasons such as lack of resources and mission prioritization.

Maintenance managers at all levels rank and prioritize maintenance based on mission, condition of the equipment, and available resources (e.g., parts, mechanic/technician, time, facilities, etc.). ME DM&R is tracked in the Global Combat Support System - Marine Corps.

**Garrison Mobile Property and Garrison Property DM&R**
GME assets requiring maintenance and exceeding the maximum maintenance cycle time of 120 days are reported in DM&R status. For GME assets, all safety requirements must meet or exceed the set conditions prescribed by the Title 49 Code of Federal Regulations. Limited Technical Inspection Sheets are used to determine the classification and economic reparability of a vehicle by evaluating the status of all components of the asset.

For GP assets the relevant DM&R policy, standardized process, and factors to determine acceptable condition standards are still under development. Therefore, required maintenance is identified at the point of asset failure. When the GP repair cost estimates determined through quotes and bids are not addressed within the 120-day maintenance cycle requirement, the GP assets are classified as DM&R.

## United States Marine Corps

# Combining Statement of Budgetary Resources

For the year ended September 30, 2021

(Unaudited)

*(Amounts in thousands)*

| | Research, Development, Test & Evaluation | Procurement | Military Personnel | Operations, Readiness & Support | 2021 Combined |
|---|---|---|---|---|---|
| **BUDGETARY RESOURCES:** | | | | | |
| Unobligated balance from prior year budget authority net (discretionary and mandatory) | $ 134,455 | $ 839,596 | $ 315,431 | $ 532,815 | $ 1,822,297 |
| Appropriations (discretionary and mandatory) | 670,385 | 2,961,659 | 16,227,378 | 8,774,786 | 28,634,208 |
| Spending Authority from offsetting collections (discretionary and mandatory) | 5,218 | 12,082 | 38,721 | 279,329 | 335,350 |
| **Total Budgetary Resources** | $ 810,058 | $ 3,813,337 | $ 16,581,530 | $ 9,586,930 | $ 30,791,855 |
| **STATUS OF BUDGETARY RESOURCES:** | | | | | |
| New obligations and upward adjustments (total) | $ 717,531 | $ 3,131,639 | $ 16,393,598 | $ 9,262,856 | $ 29,505,624 |
| Unobligated balance, end of year: | | | | | |
| Apportioned, unexpired accounts | 79,840 | 644,864 | 35,245 | 74,118 | 834,067 |
| Unapportioned, unexpired accounts | – | – | – | 32 | 32 |
| Unexpired unobligated balance, end of year | 79,840 | 644,864 | 35,245 | 74,150 | 834,099 |
| Expired unobligated balance, end of year | 12,687 | 36,834 | 152,687 | 249,924 | 452,132 |
| Unobligated balance, end of year (total) | 92,527 | 681,698 | 187,932 | 324,074 | 1,286,231 |
| **Total Budgetary Resources** | $ 810,058 | $ 3,813,337 | $ 16,581,530 | $ 9,586,930 | $ 30,791,855 |
| **OUTLAYS, NET:** | | | | | |
| Outlays, net (total) (discretionary and mandatory) | $ 652,728 | $ 2,824,780 | $ 16,164,002 | $ 9,189,892 | $ 28,831,402 |
| Distributed offsetting receipts (-) | – | – | – | (178) | (178) |
| **Agency Outlays, net (discretionary and mandatory)** | $ 652,728 | $ 2,824,780 | $ 16,164,002 | $ 9,189,714 | $ 28,831,224 |

# SECTION 3: OTHER INFORMATION

## STATEMENT FROM THE USMC INSPECTOR GENERAL

DEPARTMENT OF THE NAVY
DEPUTY NAVAL INSPECTOR GENERAL FOR MARINE CORPS MATTERS
INSPECTOR GENERAL OF THE MARINE CORPS
701 S COURTHOUSE ROAD
ARLINGTON VA 22204-2485

IN REPLY REFER TO:
5200
IGR
26 Oct 21

From: Inspector General of the Marine Corps
To: Deputy Commandant for Programs and Resources (Attn: RFA)

Subj: MANAGEMENT AND PERFORMANCE CHALLENGES STATEMENT

Ref: (a) Reports Consolidation Act of 2000

1. A summary of the Inspector General of the Marine Corps' most serious management and performance challenges facing the Marine Corps, as required by reference (a), follows:

a. Modernization and maintenance of aging infrastructure;

b. The modernization of programs, policies, systems, and associated support to recruit, train, develop, and retain necessary human capital;

c. Maintaining a comprehensive and endemic culture of safety and accountability in operations, training, and administrative activities.

d. Diversity, Inclusion, and Extremism in the Military; and

e. Navigating the ongoing impacts of the Corona Virus pandemic and the continued health, safety, welfare, and wellbeing of Marines, Sailors, Civilians, and their families.

2. The Marine Corps is actively working to address the above challenges.

3. For questions concerning this statement, please contact Lieutenant Colonel Lucas Hernandez at (703) 604-4625 or CWO4 Aaron Ratz at (703) 604-4544, IGMC Readiness Division.

SHELTON.CARLYLE.ERNEST.JR.1030841839 Digitally signed by SHELTON.CARLYLE.ERNEST.JR.1030841839 Date: 2021.10.27 15:07:07 -04'00'
C. E. SHELTON, JR.
Acting

## Summary of Financial Statement Audit and Management Assurances

The information in Tables 1 and 2 represent the results of previous independent audits and internal assessments conducted as part of the United States Marine Corps' (USMC) Managers' Internal Control Program. Table 1 reflects the material weaknesses identified in the Reports of Independent Certified Public Accountants issued by Ernst and Young Limited Liability Partnership in November 2021. The material weaknesses included in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) Table 2 represents the material weaknesses reported in the Marine Corps fiscal year (FY) 2021 Statement of Assurance. Although the material weaknesses overall are not resolved, progress has been made to resolve specific findings associated with the material weaknesses.

**Table 1. Summary of Financial Statement Audit**

| **Audit Opinion: Disclaimer** | | | | | |
|---|---|---|---|---|---|
| **Restatement: No** | | | | | |
| Material Weaknesses | Beginning Balance * | New | Resolved | Consolidated/ Disaggregated | Ending Balance |
| Entity Level Controls | 1 | – | – | – | 1 |
| Business Process Controls | 1 | – | – | (1)[1] | – |
| Financial Reporting | 1 | – | – | – | 1 |
| Fund Balance with Treasury | 1 | – | – | – | 1 |
| General Property, Plant and Equipment[2] | 1 | – | – | – | 1 |
| Inventory and Related Property: Operating Materials & Supplies[3] | 1 | – | – | – | 1 |
| Integrated Financial Management Systems | 1 | – | – | (1)[4] | – |
| Information Systems | 1 | – | – | (1)[4] | – |
| Financial Information Systems - Access Controls/Segregation of Duties | 0 | – | – | 1 | 1 |
| Financial Information Systems - Configuration Management | 0 | – | – | 1 | 1 |
| Financial Information Systems – Interface Processing | 0 | – | – | 1 | 1 |
| *Total Material Weaknesses* | 8 | – | – | – | 8 |

*Listed are the material weaknesses from the internal control report by Ernst and Young as a result of the USMC financial statement audit in FY2021.
[1]This material weakness has been consolidated with Entity Level Controls.
[2]Formally referenced as Property, Plant, and Equipment during the USMC financial statement audit in FY2020.
[3]Formally referenced as Operating Material & Supplies during the USMC financial statement audit in FY2020.
[4]These material weaknesses were disaggregated during the USMC financial statement audit in FY2021, resulting in three material weaknesses.

**Table 2. Summary of Management Assurances**

| **Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)** | | | | | | |
|---|---|---|---|---|---|---|
| **Statement of Assurance** | **No Assurance** | | | | | |
| **Material Weaknesses** | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Asset Accountability and Reporting *(PY MW title was renamed from Property, Plant, and Equipment)* | 1 | – | – | – | – | 1 |
| Operating Materiel and Supplies | 1 | – | – | 1 | – | – |
| Budgetary and Business Process Controls *(PY MW title was renamed from Business Process Controls)* | 1 | – | – | – | – | 1 |
| Ability to Provide Complete, Timely and Sufficient Evidence | 1 | – | – | 1 | – | – |
| Financial Accounting and Reporting Processes *(PY MW title was renamed from Financial Reporting and Analysis)* | 1 | – | – | – | – | 1 |
| Disbursements and Fund Balance with Treasury Reporting *(PY MW title was renamed from Fund Balance with Treasury Controls)* | 1 | – | – | – | – | 1 |
| *Total Material Weaknesses* | 6 | – | – | 2 | – | 4 |

## Effectiveness of Internal Control Over Operations (FMFIA § 2)

| **Statement of Assurance** | **Modified** | | | | | |
|---|---|---|---|---|---|---|
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Physical/Installation security requirements | 1 | – | – | – | 1 | – |
| Entity Level Controls | 1 | – | – | – | – | 1 |
| Entity-wide Cybersecurity | – | 1 | – | – | – | 1 |
| *Total Material Weaknesses* | 2 | 1 | – | – | 1 | 2 |

## Compliance with Federal Financial Management System Requirements (FMFIA § 4)

| **Statement of Assurance** | **Federal systems do not conform to financial management system requirements** | | | | | |
|---|---|---|---|---|---|---|
| Non-Compliance | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Financial Accounting and Reporting Systems *(PY Material Non-Compliance title was renamed from Information Systems)* | 1 | – | – | – | – | 1 |
| Logistics Systems General Controls *(PY Material Non-Compliance title was renamed from Integrated Financial Management Systems)* | 1 | – | – | – | – | 1 |
| Personnel and Payroll Application Controls | – | 1 | – | – | – | 1 |
| *Total non-compliances* | 2 | 1 | – | – | – | 3 |

## Compliance with Section 803(a) of the Federal Financial Management Improvement Act

| | Agency | Auditor |
|---|---|---|
| 1. Federal Financial Management System Requirements | Lack of compliance noted | Lack of compliance noted |
| 2. Applicable Federal Accounting Standards | Lack of compliance noted | Lack of compliance noted |
| 3. U.S. Standard General Ledger at Transaction Level | Lack of compliance noted | Lack of compliance noted |

# ACRONYMS

| Acronym | Definition |
|---|---|
| ACMC | Assistant Commandant of the Marine Corps |
| ADA | Anti-deficiency Act |
| ADL | Administrative Deadline Programs |
| ADVANA | Advanced Analytics tool |
| APF | Appropriated Fund |
| ASP | Administrative Storage Programs |
| ATO | Authority to Operate |
| BAH | Basic Allowance for Housing |
| BRAC | Base Realignment and Closure |
| C5ISR | Command, Control, Communications, Computers, Combat Systems, Intelligence, Surveillance, and Reconnaissance |
| CAP | Corrective Action Plan |
| CARES Act | Coronavirus Aid, Relief, and Economic Security Act |
| CFO | Chief Financial Officers |
| CIP | Construction in Progress |
| CM | Configuration Management |
| CMC | Commandant of the Marine Corps |
| COVID-19 | Coronavirus Disease 2019 |
| CRO | Cumulative Results of Operations |
| CSRS | Civil Service Retirement System |
| CUEC | Complementary User Entity Controls |
| DAI | Defense Agency Initiative |
| DATA Act | Digital Accountability and Transparency Act of 2014 |
| DDRS | Defense Departmental Reporting System |
| DERP | Defense Environmental Restoration Program |
| DFAS | Defense Finance and Accounting Service |
| DLA | Defense Logistics Agency |
| DM&R | Deferred Maintenance and Repairs |
| DoD | Department of Defense |
| DOL | Department of Labor |
| DoN | Department of the Navy |
| DOT | Department of Transportation |
| DRP | Discontinued Research Package |
| D-PRV | Deflated Plant Replacement Value |
| EOU | Excess, Obsolete, and Unserviceable |
| ERM | Enterprise Risk Management |
| FASAB | Federal Accounting Standards Advisory Board |
| FBWT | Fund Balance with Treasury |
| FCI | Facilities Condition Index |

| Acronym | Definition |
|---|---|
| FECA | Federal Employees' Compensation Act |
| FEDVIP | Federal Employees Dental and Vision Insurance Program |
| FEHB | Federal Employees Health Benefits |
| FERS | Federal Employees Retirement System |
| FFMIA | Federal Financial Management Improvement Act |
| FHIF | Family Housing Improvement Fund |
| FISMA | Federal Information Security Modernization Act |
| FLTCIP | Federal Long-Term Care Insurance Program |
| FMFIA | Federal Manager's Financial Integrity Act |
| FSCR | Financial Statement Compilation and Reporting |
| FY | Fiscal Year |
| GAAP | Generally Accepted Accounting Principles |
| GAO | Government Accountability Office |
| GE | General Equipment |
| GME | Garrison Mobile Equipment |
| GMRA | Government Management Reform Act |
| GP | Garrison Property |
| GPP&E | General Property, Plant, and Equipment |
| HR | House Report |
| HQMC | Headquarters, U.S. Marine Corps |
| IC4 | Information Command, Control, Communications, and Computers |
| ICOFR | Internal Control Over Financial Reporting |
| ICOFS | Internal Control Over Financial Systems |
| IGT | Intergovernmental Transactions |
| IT | Information Technology |
| IUS | Internal Use Software |
| LLC | Limited Liability Company |
| LLP | Limited Liability Partnership |
| M&R | Maintenance and Repair |
| MAGTF | Marine Air Ground Task Forces |
| MARCENT | U.S. Marine Corps Forces, Central Command |
| MARFORAF | U.S. Marine Corps Forces, Africa |
| MARFORCOM | U.S. Marine Corps Forces, Command |
| MARFORCYBER | U.S. Marine Corps Forces, Cyberspace Command |
| MARFOREUR | U.S. Marine Corps Forces, Europe |
| MARFORK | U.S. Marine Corps Forces, Korea |
| MARFORNORTH | U.S. Marine Corps Forces, Northern Command |
| MARFORPAC | U.S. Marine Corps Forces, Pacific |
| MARFORRES | U.S. Marine Corps Forces, Reserves |
| MARFORSOUTH | U.S. Marine Corps Forces, Southern Command |

| Acronym | Definition |
|---|---|
| MARFORSPACE | U.S. Marine Corps Forces, Space Command |
| MARFORSTRAT | U.S. Marine Corps Forces, Strategic Command |
| MARSOC | U.S. Marine Corps Forces, Special Operations Command |
| MCCS | Marine Corps Community Services |
| MCDP | Marine Corps Doctrinal Publication |
| MCORS | Marine Corps Order Resource System |
| MCTFS | Marine Corps Total Force System |
| ME | Military Equipment |
| MERHCF | Medicare Eligible Retiree Health Care Fund |
| MHPI | Military Housing Privatization Initiative |
| MICP | Managers' Internal Control Program |
| MICRR | Marine Corps Managers' Internal Control Remediation and Reporting |
| MOS | Military Occupational Specialty |
| MRF | Military Retirement Fund |
| MUHIF | Military Unaccompanied Housing Improvement Fund |
| MWR | Morale, Welfare, and Recreation |
| NAF | Non-Appropriated Funds |
| NAFI | Non-Appropriated Funds Instrumentalities |
| NAVAIR | Naval Air Systems Command |
| NAVFAC | Naval Facilities Engineering Systems Command |
| NIST | National Institute of Standards and Technology |
| NRV | Net Realizable Value |
| O&M | Operations and Maintenance |
| OA | Operating Agreement |
| OEL | Other Environmental Liabilities |
| OGC | Office of General Council |
| OJAG | Office of the Judge Advocate General |
| OM&S | Operating Materiel and Supplies |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel and Management |
| OUSD | Office of the Under Secretary of Defense |
| P3 | Public-Private Partnerships |
| PISD | Placed in Service Date |
| P.L. | Public Law |
| PP&E | Property, Plant, and Equipment |
| PRV | Plant Replacement Value |
| RDT&E | Research, Development, Test, and Evaluation |
| RMF | Risk Management Framework |
| RPA | Real Property Assets |
| RSA | Remote Storage Activities |

| Acronym | Definition |
|---|---|
| S/L | Straight Line |
| SABRS | Standard Accounting Budgeting and Reporting System |
| SBR | Statement of Budgetary Resources |
| SCNP | Statement of Changes in Net Position |
| SECNAV | Secretary of the Navy |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SNC | Statement of Net Cost |
| SOD | Segregation of Duties |
| SOFA | Status of Forces Agreements |
| TFM | Treasury Financial Manual |
| TSP | Thrift Savings Plan |
| U.S.C. | United States Code |
| UNC | United Nations Command |
| USAFRICOM | U.S. Africa Command |
| USCENTCOM | U.S. Central Command |
| USEUCOM | U.S. European Command |
| USFK | U.S. Forces Korea |
| USMC | United States Marine Corps |
| USNORTHCOM | U.S. Northern Command |
| USSGL | United States Standard General Ledger |
| USSOCOM | U.S. Special Operations Command |
| USSOUTHCOM | U.S. Southern Command |
| USSTRATCOM | U.S. Strategic Command |
| VSIP | Voluntary Separation Incentive Pay |
| WCF | Working Capital Fund |
| WHS | Washington Headquarters Service |

*The U.S. Marine Corps Silent Drill Platoon wrapped up their offsite training at Camp Lejeune, Feb. 25 2021. Prior to leaving, the platoon did a few performances for the units at Lejeune.*
*(U.S. Marine Corps photo by Sgt. Jason A. Kolela)*

*“Marines must continue to think, write, debate, innovate, and adapt to not only keep pace with the ever-changing character of warfare, but to ultimately drive it and force others to adapt to us.”*

For More Information
Fiscal Director of the Marine Corps

Headquarters, U.S. Marine Corps
Programs and Resources Department

https://www.hqmc.marines.mil/pandr/